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TO CONSIDER BUDGET PROCESS REFORM

JOINT HEARING

BEFORE THE

COMMITTEE ON THE BUDGET

AND THE

COMMITTEE ON
GOVERNMENTAL AFFAIRS
UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

JANUARY 27, 1999

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TO CONSIDER BUDGET PROCESS REFORM

WEDNESDAY, JANUARY 27, 1999

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
AND THE COMMITTEE ON THE BUDGET,
Washington, DC.

The Committee met, pursuant to notice, at 9:40 a.m., in room SD–106, Dirksen Senate Office Building, Hon. Fred Thompson, Chairman of the Committee on Governmental Affairs, and Hon. Pete V. Domenici, Chairman of the Committee on the Budget, presiding.

Present: Senators Domenici, Thompson, Stevens, Grassley, Gorton, Grams, Voinovich, Lautenberg, Conrad, Lieberman, and Durbin.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman DOMENICI [presiding]. The hearing will please come to order.

Good morning. We are having not only an interesting hearing, but a rare one for the U.S. Senate, in that two committees are meeting simultaneously together here today to open a dialog with reference to a bill that would have far-reaching ramifications for the processes around the U.S. Congress.

Essentially, there are many subsets to this bill, but the big issues are should we appropriate biennially and should we budget biennially instead of every year.

I do not choose, today, to go into any detail other than to comment that that aspect of this bill has already cleared both of these committees last year, and it came out of each committee separately. That biennial reform legislation went to the desk in the Senate, but the leadership could not find time and we went out of session before we got an opportunity to take up that legislation.

The budget laws and procedures, everyone should know, grew largely out of laws enacted about 25 years ago to combat the budget deficit. It should be obvious to everyone that today we face different challenges. We need to find a way to set aside the surpluses generated by Social Security trust funds for Social Security, and we need to tighten controls over emergency spending, so that we do not face the situation we faced last year every year.

Last year, I agreed with the President that every penny of the surplus generated by Social Security should be used first to save Social Security. However, in the end, while the U.S. House was clearly reprimanded for moving a tax bill that would have reduced revenues by $6 billion in the first year, we ended up spending $27 billion of the surplus on emergencies last year.

Finally, we need to find a way to reform the authorization, appropriations and budget processes. Suffice it to say that we are obligated now to produce 13 separate appropriations bills and a budget resolution every year. It is my own opinion that this has led to a situation in the U.S. Congress where the authorizing committees are weaker because they do not have much time to get their job done. We seem to be budgeting and appropriating all of the time.

It would seem that the laws of the lands, as numerous as they are, cry out for oversight, and it is pretty obvious that there is not a lot of time for oversight if we stick to the processes that both the House and the Senate are following today.

Now, there obviously are many other views that have to be heard with reference to this, but let me quickly go through a summary of this bill and then yield to the Chairman of the Governmental Affairs Committee, and then we will rotate back and forth, if I understand correctly.

First, streamline the process to enhance oversight of Federal programs by moving to a biennial budgeting and appropriations process;

Second, curb the abuse in some way of emergency spending or the ease with which it seems to be enacted;

Third, set aside and protect the Social Security surplus until we ensure that Social Security will be there for every generation;

Fourth, make way for tax relief that does not tap Social Security surpluses; and

Fifth, provide that we never again incur a government shutdown because of our failure to enact appropriations.

I am going to close with that. Now, if I understand correctly, it is your turn, Chairman Thompson.

[The prepared statement of Chairman Domenici follows:]

PREPARED STATEMENT OF CHAIRMAN DOMENICI

Today, the Budget and Governmental Affairs Committees meet jointly to review budget process reform legislation. This is both an arcane and controversial topic. While it is always difficult to enact budget process changes, the last time we had a joint hearing, it led to the enactment of the Unfunded Mandates Reform Act.

Our budget laws and procedures largely grew out of laws enacted over the past 25 years to combat the budget deficit. Today, we face new challenges. We need to find a way to set aside the surpluses generated by Social Security trusts fund for Social Security. We need to tighten controls over emergency spending so that we don't face the absurd situation we faced last year.

Last year, I agreed with the President that every penny of the surplus generated by Social Security should be reserved to save Social Security first. However, in the end, the House was lambasted for moving a tax bill that would have reduced revenues by $6 billion in the first year, while we ended up spending $27 billion of the surplus last year for "emergencies."

Finally, we need to find a way to reform the authorization, appropriations, and budget processes. Over one-third of domestic discretionary spending is unauthorized. Only twice in the past 50 years have we enacted 13 separate appropriations bills by the fiscal year deadline without relying on a continuing resolution (CR). We also regularly miss the deadline for completion of budget resolutions.

I have been working closely with the distinguished Chairman of the Governmental Affairs Committee to correct these problems. On January 19, along with Senator Lieberman, we introduced S. 92, the Biennial Budgeting and Appropriations Act. That same day I also introduced a comprehensive budget process reform bill, S. 93, the Budget Enforcement Act of 1999. This comprehensive bill would:

First, streamline the budget process and enhance the oversight of Federal programs by moving to a biennial budgeting and appropriations process;

Second, curb the abuse of emergency spending;

Third, set aside and protect the Social Security surplus until we ensure that Social Security will be there for every generation;

Fourth, make way for tax relief that does not tap Social Security surpluses; and

Fifth, provide that we never again incur a government shutdown because of our failure to enact appropriations.

Under the Senate's rules, both of these bills have been referred jointly to our two committees. I hope our two committees can quickly act to reform the budget process to guarantee that Social Security's surpluses are saved for that program, to stem the abuse of emergency spending, and to find a way to lesson the historically high burden of taxation on the American people.

OPENING STATEMENT OF CHAIRMAN THOMPSON

Chairman THOMPSON. Thank you very much, Mr. Chairman, and thank you for what you have done to move this process along while taking the lead and highlighting for the rest of us the needs we have in this area.

I think the problems that we have with the current budget process are well known. It consumes us all the year. We have a difficulty getting our appropriations bills in on time. We are writing the final chapter at the last minute of the last hour. It is basically written by a handful of conferees at the last minute. Few know what is in the final product. We exceed our budget caps by so-called emergency spending that requires no offsets; $21 billion this last time. We have a flurry of last-minute amendments to the budget resolution and reconciliation bills producing a vote-a-thon, where we bleary-eyed walk over, trudge over hour after hour to vote on amendment after amendment, of which very few of us even know what the ramifications of these amendments may be, all under the imminent threat of a government shutdown if we do not get our work done, and we finish just in time to start over the next year. I think most of us have decided that this is no way to run a railroad.

Chairman Domenici mentioned the need for additional oversight, and I think we see that more and more every year. The Governmental Affairs Committee, I believe, has broader jurisdiction than any other committee in that regard and broader responsibilities. We are supposed to be overseeing how the various agencies are doing under the Government Performance and Results Act, for example. They are supposed to be submitting annual performance plans. We are supposed to be analyzing those plans, seeing how the agencies are doing.

Frankly, we have very little time to properly do that, much less relaying to the authorizing committees the information regarding the operations of agencies which fall within their jurisdiction. We see the high-risk list appear before us every year, where these agencies have problems with waste, fraud and abuse. We recognize those problems, chastise the agencies a little bit, and they return the next year without anything happening.

So that is the oversight problem that we have and the very great difficulty that we have in finding the time to properly deal with that.

So Senator Domenici, Senator Lieberman and myself, and other Senators have sponsored a 2-year budget and other plans. As the

Senator pointed out, the Governmental Affairs Committee in the last Congress passed the biennial budget by a vote of 13 to 1, and we want to do that early again this time.

We welcome our witnesses today, including our good friend and colleague, John McCain; the second panel of witnesses, Congressman Nussle and Ben Cardin. We really appreciate your taking the time to come over and be with us here today and give us your ideas as to prospects for budget reform from the House standpoint. We also extend our welcome to a third panel of private-sector experts who have a long history and knowledge in this process.

Following this hearing, I would like the Governmental Affairs Committee to take up these budget reform measures as expeditiously as possible in order to achieve these goals.

I now yield to Senator Lautenberg for his opening comments.

[The prepared statement of Chairman Thompson follows:]

PREPARED STATEMENT OF SENATOR FRED THOMPSON

Good morning. On behalf of the Members of the Governmental Affairs Committee, we are pleased to join Chairman Domenici and the Members of the Budget Committee in holding this important hearing today on budget process reforms. Both the Biennial Budgeting and Appropriations bill and the Budget Enforcement Act of 1999 address serious problems with our current budget process.

We need only to look at the events last year to see that our current process is broken and in need of repair. While the Senate adopted a Budget Resolution, we were unable to reach a conference agreement with the House. In the interim, the appropriations process was taking place, but stalled as we moved into the fall election cycle. The 4,000 page, 40-pound Omnibus Appropriations bill included the provisions of eight appropriations bills and was not enacted until October 21. We included $21.7 billion in spending for programs deemed “emergencies,” yet many of these programs were foreseeable and expected. By treating this funding as emergency spending, we raided our first budget surplus in a generation.

I believe the bills we have before us today make sensible changes to our budget process.

S. 92 establishes a biennial budgeting and appropriations cycle. I am pleased to join Senator Domenici and Senator Lieberman in sponsoring this legislation. This legislation was reported by the Committee on Governmental Affairs by a vote of 13–1 in the 105th Congress.

Our current annual budget and appropriations process results in unnecessarily repetitive and duplicative work, oftentimes at the expense of effective oversight of Federal programs. What a biennial budget can do is give Congress time for the important tasks that often get short shrift these days, such as conducting oversight and long-range planning, and spending more time at home with the people who sent us here.

A 2-year budget dovetails with the 2-year time period for a Congress. Under this process, the first session is reserved for establishing a 2-year budget and completing the appropriations bills. The second session is reserved for authorizations and oversight.

Two-year budget cycles will permit agencies to plan for the longer term, a failure of the current system. The 2-year finding cycle gives agencies a degree of certainty in policy planning that they have never had, and will minimize the constant budget planning process that has accompanied the current appropriations cycle.

A biennial budget will also provide greater funding stability and predictability in Federal funding, benefiting those entities, such as State and local governments, affected by the Federal budget cycle.

S. 93, the Budget Enforcement Act of 1999, also proposes reasonable changes to the current process. In addition to a biennial budget, the bill proposes to change the way we treat emergency spending, reform Pay-As-You-Go procedures to provide that on-budget surpluses—which exclude Social Security funds—can be used for tax cuts, create an automatic Continuing Resolution to prevent a government shutdown should appropriations bills be vetoed or fail to pass, and reform Senate procedures surrounding consideration of budget bills.

I look forward to hearing from our witnesses today. I want to extend my wand welcome to our colleague, Sen. John McCain. Sen. McCain has been an effective advocate for budget process reforms and I know we all look forward to his testimony and discussion of these proposals here today.

I want to welcome our second panel of witnesses, Congressman Jim Nussle and Congressman Ben Cardin. I am glad you could take time to cross the Capitol today and discuss with our Committees the proposals and prospects for serious budget process reforms for this Congress. The proposals contained in Senator Domenici's Budget Enforcement Act are similar to the one you incorporated in your bipartisan bill from the last Congress. I hope we can continue to find common ground, both on a bipartisan and bicameral basis, in moving forward with budget reforms.

On our third panel, we have private sector experts with a long history and knowledge of the budget process. Let me extend our welcome to Martha Phillips, Executive Director of the Concord Coalition, Tim Muris, Professor of Law at George Mason University, and Van Ooms, Senior Vice President and Director of Research of the Committee for Economic Development. I look forward to hearing your views today on biennial budgeting and other reforms.

I believe the hearing record will establish today the overwhelming need to reform the budget process. While these proposed reforms may not cure all the ills of our present system, they represent sound progress in addressing the problems. We need to remember that current rules were designed to address budget deficits and we now—for the moment anyway—find ourselves in the enviable position of addressing how we should treat our budget surpluses. I hope we can maintain the discipline to manage this surplus without throwing caution to the wind.

We have made great strides in recent years and our balanced budget reflects this progress. However, our work is not yet complete. We need to take action to protect and ensure the long-term viability of our Social Security system, while returning any remaining surpluses to the American people .

Following this joint hearing, I would like the Governmental Affairs Committee to take up these budget reform measures as expeditiously as possible in order to achieve these goals.

OPENING STATEMENT OF SENATOR LAUTENBERG

Senator LAUTENBERG. Thank you, Mr. Chairman. I commend both of the Chairmen for holding this hearing and allowing us to review a problem that is a festering sore that we have got to deal with.

We are going to be talking a lot this year about reforming the budget process. It has been an interest and a topic that Senator Domenici has elicited on a regular basis. I think we can agree on some of the things that he is proposing.

But when we look at the experience of last year, for instance, it was the first time since the Budget Act was passed in 1974 that we failed to pass a budget resolution. We also failed to pass several appropriations bills, and that led to closed-door negotiations at the end of the year in which a handful of individuals produced a mammoth appropriations bill. It is a poor way to legislate, and we ought to do it better.

As I think most of you know, the current budget rules effectively exempt emergencies from the discretionary spending caps and the Pay-As-You-Go rules. That is as it should be because, after all, when floods or other disasters devastate a community or our Nation confronts threats from abroad, we need to respond immediately.

Unfortunately, the emergency exception can be abused.

Last year's omnibus appropriations bill, as we heard from the Chairman, included $21.4 billion in emergencies. In light of that experience, I believe that we need to tighten the rules on emergencies. Currently, there is no definition of an emergency, and we ought to establish one, and I think we ought to require Members, for the first time, to be more explicit when trying to justify a particular item.

At the same time, we need to ensure that any cure is not worse than the disease because genuine emergencies, by their very nature, tend to involve threats to national security, public health and safety and the economy.

Now, given the high stakes involved, it is critical that Congress have the flexibility it needs to respond immediately and effectively. I am concerned, for example, that some pending proposals propose definitions of emergencies that are excessively restrictive.

Now, take the requirement in S. 93 that an emergency be sudden and unforeseen to qualify. This could rule out problems that were anticipated, but are nevertheless severe. The Y2K problem was foreseen by almost everybody on the globe, and one could argue that the Congress should have responded more promptly. But if Congress now concludes that the Nation faces a serious crisis, should we abandon any emergency effort to get the job done?

I also question the wisdom of allowing a minority of Senators to veto the designation of an emergency as proposed in S. 93, keeping in mind that if Senators are concerned about perceived abuses of the emergency designation, we already have a remedy: An amendment to strike the provision. Such an amendment now can be approved with 51 votes. To the extent that the omnibus appropriations bill included illegitimate designations, the problem was not that the amendments to strike needed a majority of votes to pass; the problem was that no one offered such an amendment in the first place.

I would ask my colleagues to imagine that your State suffers a flood or an earthquake, leaving lots of your constituents without shelter, electricity or their health service needs. If 59 Senators agreed that this disaster required emergency aid, then why should 41 Senators be allowed to veto the funding? I do not think we need to go that far to prevent abuses. In my view, if we simply required committees to specifically explain in writing the justification for an emergency designation and established a 60-vote point of order if they fail to do so, most abuses would be eliminated.

Let me now turn to a proposal that Senator Domenici has been promoting: Biennial budgeting. Now, I know that our Chairman feels strongly about this, and I greatly respect his views, but I do have some concerns.

First, I fear that biennial budgeting would weaken Congressional oversight of the Executive Branch, since it is in the annual appropriations process that Congress performs or should perform oversight. And I am also concerned that 2-year budgeting could force agencies and the Congress to rely on speculative, long-term projections when setting budgets and could limit our ability to adapt to changing needs and circumstances.

Perhaps most importantly, in my view biennial budgeting almost inevitably would lead to massive and unwielding supplemental appropriations bills, and we ought to be moving in the opposite direction. So I hope my colleagues will give careful review to biennial budgeting. It sounds good, but the reality may be more problematic than the current process.

I would also like to express my concern about proposals to change the Pay-As-You-Go rule to allow surpluses to be used for tax cuts before we have truly saved Social Security and strengthened Medicare. In my view, Congress should do all three: Strengthen Social Security, fix Medicare, and cut taxes. But we should not allow tax breaks, especially those that would be disproportionately beneficial to higher income people, to consume funds needed for Social Security or Medicare. That is why, in my view, it would be a mistake to weaken the Pay-As-You-Go rule now.

Mr. Chairman, I have only touched the surface of the many different budget process changes that are before us. But I would like to emphasize that, in my view, these are not the issues that ought to be rushed through before they have had a chance to be fully vetted.

Many process changes sound good, but have various practical problems that are difficult to identify. We need to consider them carefully. The need for caution is especially true now that we face the new challenge of allocating budget surpluses. In fact, I would propose that we decide first how we want to allocate those surpluses. Then we can decide how to structure budget rules to implement and enforce that agreement.

Once we have a consensus on the former, the latter should be relatively easy.

So, once again, I thank both of you for holding this hearing. I look forward to working with you on these matters.

Chairman DOMENICI. Senator Lieberman.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thanks, Mr. Chairman. Thanks to you and Senator Thompson, Senator Lautenberg, and colleagues. Thanks to the Chairman for giving us the opportunity this morning to focus on something other than the impeachment trial and I hope that we will, once again, return full-time to our Senate work.

I have a full statement that I would like to have included in the record and then just draw very briefly from it now.

Mr. Chairman, this hearing into our budget process occurs during a very exciting new era of our budgetary history. We are obviously entering a brave, new world of, not only balanced budgets, but of budget surpluses. And while there is understandable and widespread joy over these budget surpluses, there is, nonetheless, widespread frustration over much of the budget process. We have the opportunity, I think, in this session to correct what rightfully bothers many of us inside the system and many outside.

I am particularly happy to co-sponsor with Chairmen Domenici and Thompson the Biennial Budgeting and Appropriations Act, which I believe is the most important of the measures before us. I support it as a common-sense reform, which will provide greater stability and predictability in the budget process and will free up more time for Congress to do oversight and management of Federal programs to assure, in a time of surplus, that, nonetheless, we are careful about how we are spending taxpayer money.

As to some of the other proposals before us today, the Pay-As-You-Go system is one of those measures that we have adopted that has served us well as a fiscal discipline tool. It has forced us to think twice before considering new programs or tax cuts. It has helped us to shrink the deficit to zero and make sure that important and necessary programs could still be implemented.

I intend to keep an open mind regarding proposed changes to the Pay-As-You-Go statute and corresponding Senate rules until the implications of the changes are more fully discussed and better understood.

With the future solvency of our Social Security system and Medicare still very much in doubt, I think we have to look beyond our present needs and think of what we are going to hand over to our children and our grandchildren. Some changes to Pay-As-You-Go may be in order, but these changes must not undermine the underlying fiscal discipline that has brought us this far.

Very briefly, on the vote-a-thons, as we call them; what seems to be never-ending voting that occurs at the end of the budget reconciliation process. Every time this happens, I find myself just standing back, as most of my colleagues do, and saying there's got to be a better way. Senators should not be asked to vote on amendments that truly very few have read, basing their votes, at most, on 30-second synopses offered by the proponents of the amendments.

It is really fair to also question whether the lengthy round of nonbinding, sense-of-the-Senate amendments offered during our annual budget debates serve any useful governmental purpose. They may serve a political purpose, but they do not really serve a governmental purpose.

S. Res. 6 raises these issues, among others, and I see it as a constructive first effort to improve our budget procedures.

Finally, another resolution offered this month by the Senate majority leader would tighten emergency spending by establishing a 60-vote point of order against any emergency spending provision. Here, again, we know that the title "Emergency Spending" has been stretched beyond any common understanding of the term "emergency." It simply should not be expanded to include every-day budget needs which could clearly have been anticipated and included within the regular spending caps.

I look forward to working with colleagues to find a sensible mechanism which would change the rules in this area. But I do want to hear the testimony before deciding what type of mechanism would be most effective.

In conclusion, in my view, the common thread through these various budget reform proposals is that none of them is or should be partisan in nature. Regardless of which party is in the majority or minority and, therefore, which sees some tactical advantage in some of the loopholes that may exist in the current process, the truth is we all have an interest in the budget process operating more smoothly, and more efficiently and more honestly than it sometimes has.

We may partake in partisan debates over the substance of the budget, as the budget is clearly one of our most important blueprints governing the future direction of the government and the Nation. But these policy disagreements should not diminish our common interest in improving the process, in conducting the Nation's budget business in an orderly, open, efficient and constructive fashion.

Thank you, Mr. Chairman.

Chairman DOMENICI. Thank you very much.

[The prepared statement of Senator Lieberman follows:]

PREPARED STATEMENT OF SENATOR LIEBERMAN

Thank you Chairmen Thompson and Domenici, for calling this hearing into the budget process. I am heartened by the constructive spirit with which we are setting out to consider possible reforms, and I am hopeful that through cooperation and, where necessary, compromise, we may achieve tangible accomplishments this Congress.

I am particularly happy to co-sponsor with Chairmen Thompson and Domenici the Biennial Budgeting and Appropriations Act. This legislation enjoyed bipartisan support last year. I support biennial budgeting as a common-sense reform, which will provide greater stability and predictability in the budget process and will free up more time for oversight and management of Federal programs.

This hearing into our budget process occurs during an important new era of our budgetary history. We are entering a brave new world of balanced budgets, indeed of budget surpluses. For the next several years we will be operating in a very different fiscal environment and this new challenge calls for caution.

But just as this new era will have challenges, it will also have many wonderful new opportunities. How we define these opportunities and take advantage of them will define the new era of budget surplus politics. Will the new surplus promote cooperation, or will it make the politics of governing more divisive? Will the luxury of a surplus cause us to lose our discipline? Or will it energize us to invest wisely in dealing with society's worst problems?

In my view, our priority in these brave new economic times must be to maintain a balanced Federal budget. For the past several years, a declining Federal budget deficit has contributed to the decline in interest rates. Less government debt on the markets has translated into lower interest rates and lower interest rates have promoted greater investment and growth in our economy. And now with a balanced budget and a projected surplus in the next 10 years, we can be cautiously optimistic that interest rates will continue to remain low and that economic fundamentals will remain favorable for continued expansion of our economy.

Achieving a balanced budget has required some very strong measures and has come at some cost. It was not long ago that Congress adopted the Budget Enforcement Act to curb our appetite for spending. Since then we have managed our spending and tax cutting through a number of important rules and statutes. In this new era of surplus politics, the time has come for us to take a hard look at some of those budget processes and to determine if they are necessary, appropriate, or in need of modification.

The Pay-As-You-Go system has served us very well as a fiscal discipline tool. It has forced us to think twice before considering new programs or tax cuts. It has helped us shrink the deficit to zero and make sure that important and necessary programs could still be implemented. When the law was enacted its authors assumed a world of deficits. It imposed an equal discipline on those who wanted tax cuts and on those who wanted to increase spending.

I intend to keep an open mind regarding proposed changes to the pay-go statute and corresponding Senate rules, until the implications of the changes are more fully discussed and better understood. Although we are currently forecasting budget surpluses for years to come, changed economic conditions could easily alter those forecasts. And we are still carrying a mountain of debt, more than five and a half trillion dollars. With the future solvency of our Social Security system and Medicare still very much in doubt, we must look beyond our present needs and think also of the legacy we will hand to our children and grandchildren. Some changes to pay-go may be in order, but those changes must not undermine the underlying fiscal discipline that has brought us this far.

Another significant reform that we will consider today would provide for automatically continuing appropriations in the event a fiscal year has expired without a completed appropriations bill. The idea is to prevent government shutdowns, but I wonder whether a continuing resolution would create more problems than it solves. We all know how hard it can be to pass appropriations bills, especially during a period of divided governments, and this reform may have the effect of encouraging inertia, especially since it could enable small voting blocks to hold out for the expenditure levels from the previous year. Without the specter of an imminent deadline spurring us on, will the government plod along, as if an automatic pilot? I believe we may be better off fighting the bruising battles and making the tough choices that are required of us, by nature of our offices.

I have often found myself scratching my head during budget reconciliation vote-a-thons and feeling there just has to be a better way to conduct business. Senators should not be asked to vote on amendments that no one has ever read, basing their votes entirely on thirty-second synopses offered by the proponents of the amendments. It's also fair to question whether the lengthy round of non-binding Sense of the Senate amendments, offered during our annual budget debates, serve much useful purpose. Senate Resolution 6 raises these issues, among others, and I see that resolution as a constructive first effort to improve our budget procedures.

Another resolution offered this month by the Majority leader would tighten emergency spending by establishing a 60 vote point of order against any emergency spending provision. I agree that the label "emergency spending" must not be stretched to include every-day budget needs which could clearly have been anticipated and included within the regular spending caps. I am open to a rules change in this area, but I want to hear the testimony before deciding what type of mechanism would be most effective here.

Perhaps I am being overly optimistic, but in my view the common thread to these various budget reform proposals is that none of them should be partisan in nature. Regardless of which party is in the majority, we all have an interest in the budget process running smoothly. We may partake in partisan skirmishes over the substance of the budget, as the budget is one of our most important blueprints governing the future direction of the Nation. But these substantive disagreements do not obviate our common interest in conducting the Nation's business in an orderly, open, and constructive fashion.

Chairman DOMENICI. We would usually proceed with the witnesses. Since we only have one Senator here, why don't we let him make an opening statement. If we had a whole array of Senators here this morning, we would ask you to make your opening statement with time for questions. But, Senator, we know you are familiar with this, and we would love to hear your comments.

OPENING STATEMENT OF SENATOR GORTON

Senator GORTON. Mr. Chairman, I appreciate your comments and those of Senator Thompson.

I guess, of the Senators here now, I am the only one who was consistently behind those notorious closed doors last October, and I can tell you it was every bit as frustrating for those Senators as it was for those who were not there to be involved in what was the chaos of that final decision-making procedure last year. I knew very little more when I was finished than did other Senators about all of the content of that long, long bill, having worked on only a portion of it.

But, clearly, it was an extremely flawed process. Therefore, it seems to me that a search for a different and better way is overwhelmingly essential. I hope that Senator Lautenberg will join in that search. If we do nothing, it seems to me that we are inevitably sentenced to the same kind of procedure this year and in future years that has worked so poorly in the past.

An orderly debate on a budget resolution on its general principles, rather than a flurry of amendments, with one minute on each side, is devoutly to be sought, whichever party is in the majority. A way in which to consider all appropriations bills on their own merits rather than the way in which we did last year is a goal devoutly to be sought, whether or not we are in a majority or a minority.

Chairman Domenici knows that I have been very reluctant to go to a biennial system probably because of my experience in the Washington State legislature, where the great reform, while I was there, was to go from biennial to annual budget cycles. I have come full circle.

But I am convinced now that we do so much here in the U.S. Senates, and we have such an overload, that to go to a biennial system would probably cause us to do it in a somewhat more orderly fashion. So reform—dramatic reform—is necessary.

I believe that you, as Chairmen, have come up with a very good road map, at least, of the way to that reform, and I hope we at least are privileged to debate it on the floor of the Senate promptly.

Chairman DOMENICI. Thank you very much, Senator. I want to stress how delighted I am that we have already had two Senators, one from each side, speak about the bipartisan nature of this problem and the fact that we need bipartisan solutions, and I think that is absolutely correct. This is not one of those issues that is ours and not yours. Clearly, we all have a stake in whether our process is workable and being worked the best way possible. I would like to insert into the record at this time a prepared statement from Senator Roth.

[The prepared statement of Senator Roth follows:]

PREPARED STATEMENT OF SENATOR ROTH

Mr. Chairman: I am pleased that the Senate Governmental Affairs and Budget Committees have joined today to review the concept of biennial budgeting. Senator Domenici has again introduced legislation to establish a biennial budget process. I, and many Members of both of these committees, have joined in cosponsoring this important and necessary proposal. I first introduced legislation very similar to this bill in 1981. Since that time the need to change the Congressional budget process to a 2-year approach has only increased.

The current system reinforces the effectiveness of gridlock as a legislative strategy. Legislative stalemates like the one we encountered last year allow purely political dynamics to drive debate on appropriations and further dilute the role of oversight in Congressional budgeting. Clearly, this is not in the best interests of the American people.

Chairman Domenici's proposal is designed to correct the flaws in the current system by putting the budget on a 2-year basis. The first session of each Congress would be devoted to the budget resolution and appropriations, culminating in a 2-year budget. The second session would be devoted to oversight and authorizations for the next 2-year period.

I believe reforms along these lines would be a clear improvement over the status quo. It is my belief that too much money is being spent without the proper review and understanding required of such a tremendous budget. A 2-year budget process will reassert the importance of oversight in Congressional budgeting and help restore the public's confidence in our decisions.

Senator Dominici has also introduced legislation to improve and strengthen the budget process through other reforms beyond biennial budgeting. I have long opposed the current budget constraints which do not allow spending cuts to offset tax cuts. A reconsideration of these budget rules is, in my view, long overdue.

Chairman DOMENICI. Senator McCain, we welcome you as a witness. If you have a statement, it will be made a part of the record. Proceed as you would like.

STATEMENT OF HON. JOHN McCAIN, A U.S. SENATOR FROM THE STATE OF ARIZONA

Senator MCCAIN. Thank you very much, Mr. Chairman, and Chairman Thompson and Members of the Committees. I will be brief, Mr. Chairman. I thank you for allowing me to speak to you today.

Obviously, I come to you from the perspective of Chairman of an authorizing Committee, one which, arguably, has probably more oversight of more government agencies; therefore, requiring more reauthorizations than many of the other committees combined. The FCC, the FTC, the FAA, the alphabet soup of government agencies, bureaucracies, and oversight and independent organizations is myriad.

I agree with the statements that have just been made. We find ourselves, to state the obvious, in a situation where, because of the time that we spend on appropriations bills, we are, therefore, unable to address the authorization side. And then we find ourselves, of course, in the inevitable listening to siren song of, well, we'll add this on an appropriations bill, which means that we continuously—and I believe in my now going in the 13th year here—growing tendency to have the authorizing on the appropriations bills which lead us to the bizarre, unfortunate and tragic situation that took place last year.

The second session of the 105th Congress convened on January 27 and adjourned on October 21, 1998. A total of 266 calendar days in which the Congress completed work on 4 of the 13 regular appropriations bills, yet it took us 24 hours to debate and pass a 4,000-page, 40-pound, nonamendable, budget-busting, omnibus appropriations bill that not only provided more than a half-a-trillion dollars to fund 10 Cabinet-level Federal Departments for the fiscal year that had started 21 days earlier, which changed the law in a huge number of other areas.

This wasn't just a bad appropriations bill, Mr. Chairman, it was a legislative abomination. I am intrigued to hear the comments of the Senator from Washington who said that he, as an appropriator, had no knowledge or influence over the process. I cannot dictate the conduct of others, nor even give advice, but that is incredible. That is an incredible comment that the Senator from Washington just made, as a member of the Appropriations Committee. That is not why we were sent here. I was sent here to represent the interests of the people of my State.

And if we have a closed-door hearing which not even a member—a decision-making process—where not even members of the Appropriations Committees play a role, then there is something terribly wrong.

One small example, in the so-called emergency category, we appropriated $9 billion for defense. Where did that $9 billion go, Mr. Chairman? It went to buy executive jets. It went to buy helicopters for Columbia. Of the $9 billion, $1 billion went to the compelling and overriding priority of the Chairman of the Joint Chiefs of Staff who testified before the Armed Services Committee was their priority, and $1 billion went to readiness and not a penny went to their highest priority, which was fixing the retirement system in the military—not one penny.

If it sounds like I am exercised by this, obviously, it is because I am. I am proud to serve in this body. We have had some very proud moments in the last couple of weeks. Many of us have discussed it behind closed doors as well as in the open. But we cannot continue a process which deprives the people of our States of representing them in the legislative process.

I am, frankly, surprised at Senator Lautenberg's comment, and I wrote it down, that the result may be more problematic than the current system. I would like to know how it could be more problematic.

I would urge all of my colleagues two things; one, if you believe the system is fine, then do not do anything. But if you believe it is broken, let us try to fix it. I would argue to the Chairmen of both committees, if we find that the biennial budgeting system does not work, we can always go back to the previous system if it is not an appropriate way to do things. But to do things the way we are doing them now, is obviously unacceptable to the overwhelming majority, not only of the members of Congress, but to the people that we represent.

There are several reasons why we had the lowest voter turnout in the last election since 1942, when this Nation was engaged in a great World War. One of the reasons is that they do not believe that we represent them any more adequately as their elected representatives.

I do not know the down side, very frankly, to trying this proposal that seems to have significant bipartisan support.

My other point is do it soon. Mr. Chairman, do it soon. We have seen time after time a situation arise, and it is eroded by failure of our attention span, other events, other situations. And if we drag this proposal out, then I think it is pretty clear we are not going to change it, and then we are going to be faced with the same train wreck that we were on before.

Finally, I would like to say, Mr. Chairman, we also need to have a Government Shutdown Prevention Act, which means, basically, that if we reach the expiration of the previous year's appropriation, then the previous year's appropriation's levels should kick in. We're all tired of this game of chicken that we play around the first of October about the shutdown of the government.

And also I think we need to change some of the Senate rules. Obviously, we should not, and cannot, continue authorizing on appropriations bills.

And that point of order should also apply to conference reports, perhaps conference bills. Perhaps one of the most egregious abuses of the process is when neither bill contains language that directly affects authorization and all of a sudden this conference report appears, and it has authorizing legislation on it, and we have no choice except to vote up or down. So I would argue a point of order should lie against a conference report, as well as an appropriations bill on either side.

Mr. Chairman, I want to thank you and applaud you and Senator Thompson, both Chairmen, for your efforts to try to fix this system. It is very badly in need of repair.

We are losing the confidence of the people we represent, with an additional 20-some-odd-billions of dollars that we labeled as an emergency. When we call something an emergency, we should at least be able to look people in the eye and say, "This is an emergency." If we are saying we are saving Social Security, let us save Social Security. If there is an emergency requirement to defend this Nation's national security interests, let us have that money for a true emergency for our national security interests. We are not doing that. It erodes our credibility and, frankly, it erodes very dramatically our ability to maintain the confidence of the American people.

I thank you for allowing me to appear here today. And, again, I want to pledge to you that I will do everything, in whatever manner I can, to help you move this proposal forward as expeditiously as possible.

I thank you, Mr. Chairman. Thank you.

[The prepared statement of Senator McCain follows:]

PREPARED STATEMENT OF SENATOR JOHN MCCAIN

Mr. Chairmen and distinguished Ranking Members, thank you for the opportunity to address this joint hearing of the Budget and Governmental Affairs Committees on reforming the Congressional budget process. Clearly, as we saw last year, restoring fiscal responsibility and integrity to the way we review the Federal budget must be a high priority for this Congress.

As critical as I have been of Congress' wasteful spending practices over the 16 years I have served here, I had never seen such an egregious piece of legislation as the Fiscal Year 1999 Omnibus Appropriations bill that we passed last year. The only good thing I can say about the bill is that it has brought us to the table today to discuss meaningful budget process reform.

Let me remind my colleagues of what happened last year.

The second session of the 105th Congress convened on January 27 and adjourned on October 21, 1998—a total of 266 calendar days in which Congress completed work on only 4 of the 13 regular appropriations bills that keep the Federal Government open and functioning. Yet, it took us just 24 hours to debate and pass a 4,000-page, 40-pound, non-amendable, budget-busting omnibus spending bill that provided more than a half-trillion dollars to fund 10 Cabinet-level Federal departments for the fiscal year that had started 21 days earlier.

The bill exceeded the budget ceiling by $20 billion for what is euphemistically called emergency spending, much of which is really everyday, garden-variety, special-interest, pork-barrel spending projects. Sadly, these projects were paid for by robbing billions from the budget surplus—a surplus that we say should be used to shore up Social Security, pay down the $5.5 trillion national debt, and provide much-needed tax relief to the American people.

The omnibus bill made a mockery of the Congress' role in fiscal matters. We failed to do our work throughout the year, and then, with the threat of a politically ruinous government shutdown, we rushed to pass a fiscal monstrosity without even knowing what was in it.

My friends, we have a duty to the American people to spend their tax dollars wisely. We do not fulfill that duty when we squander billions of dollars on pork-barrel projects, like the 52 pages of wasteful, low-priority, and unnecessary spending I discovered in the omnibus appropriations bill. We must take action now, or we will wake up 10 years from now and wonder what happened to our over $700 billion Federal budget surplus.

So, what can we do to fix the flawed Congressional budget process?

Government Shutdown Prevention Act of 1999

First, we must enact the Government Shutdown Prevention Act of 1999 to ensure that essential government services continue to reach the American people, even if the Congress and the Administration cannot agree on our budget priorities in a timely fashion.

I and others introduced this legislation again this year to put in place a mechanism to continue funding for any department or agency whose regular appropriations bill is not enacted by the beginning of the fiscal year. Our bill, S. 99, would make it impossible for the threat of a government shutdown to be used as political leverage to add billions of dollars to an omnibus bill at the very end of the process. Instead, because funding would be provided under an automatic continuing resolution to keep the government open, the Congress would be able to resist the pressure to throw everything but the kitchen sink into a last-minute spending bill just to get a deal and prevent a shutdown, especially in an election year.

The clear lesson of the 1995 government shutdown and the fiscal debacle of last year is that we cannot allow the government to be shut down again, nor can we allow the threat of a government shutdown to be so imminent that we fiscal conservatives are forced to acquiesce to the appropriation of billions of dollars for projects that do not serve our nation's interests.

I am pleased that the Republican Leader, Senator Lott, and the Chairman of the Appropriations Committee, Senator Stevens, are cosponsors of S. 99, and I am assured we will move forward quickly on this much-needed measure.

Biennial Budgeting

As you know, we spend the majority of our time every year deciding how we are going to fund the government in the annual appropriations bills. This is a tremendous waste of resources. There is an endless list of policies and issues we should be dealing with, such as tax cuts, saving Social Security, paying down the national debt, military readiness, foreign policy, and so forth. But these issues are given short shrift because our time is consumed with the budget process.

To address this problem, I joined Senator Domenici and others in sponsoring S. 92, the Biennial Budgeting and Appropriations Act. The bill essentially requires the President to submit and Congress to enact two-year authorization and appropriations bills. Rather than the current process where the Congress passes budgets and appropriates funding on an annual basis, under a biennial budget we would pass bills that provided 2 years worth of funding.

Annual budgeting encourages budgeting by brinksmanship, where we scramble at the end of each fiscal year to complete a new budget and avoid a government shutdown. Biennial budgeting would avoid the annual showdown over spending priorities and provide needed predictability and stability for government agencies and programs. Two-year budgeting would also allow us to focus attention on fiscal matters during the first full year of a Congress, then turn to other pressing matters of national policy the second year.

Changes in the Senate's Rules

Some of the problems we face can be corrected simply by changing the Senate's own rules governing the budget process, and I have proposed three measures that will streamline the process and eliminate unauthorized spending.

One procedural change, contained in S. Res. 4, reestablishes the point of order against legislation on an appropriations bill. This proposal would prevent the kind of policy "riders" that bog down the appropriations process and trample on the prerogatives of the authorizing committees.

S. Res. 25 contains two additional rules changes. The first establishes a 60-vote point of order against any item in an appropriations measure that provides more than $1 million for any program, project, or activity which is not already specifically authorized in a law other than an appropriations act. This is the system of checks and balances that is envisioned in the law, and the Senate should adhere to the law.

The second proposal allows the Leader to move, without debate, to proceed to any appropriations measure after June 30. The Budget Act establishes June 30 as the date by which the House is expected to complete action on all the appropriations measures. By allowing this privileged motion, and thereby eliminating the need to debate, file cloture, and vote on a motion to proceed to appropriations measures after that date, the Senate could save a full week's time, and could instead spend that time working on the bill itself.

These simple procedural changes do not require the concurrence of the President or the House of Representatives. We can adopt them quickly, before the appropriations process begins in earnest, and we should do so to avoid the kind of fiscal brinksmanship that occurred last year.

Mr. Chairmen and members of the Committee, we must adopt meaningful budget process reform this year to restore openness, fairness, and public input in the process of spending the taxpayers' dollars. If we do not, we risk new fiscal monstrosities like the fiscal year 1999 Omnibus Appropriations Bill, as well as a further loss of the American people's respect.

Thank you again for the opportunity to present my views today. I would be happy to answer any questions.

Chairman THOMPSON. Thank you very much, Senator McCain.

First, I want to welcome the newest Member of our Committee, former Governor Voinovich, to the Governmental Affairs Committee. Thank you for being here today.

Senator McCain, thank you for lending such a strong voice to this cause. You are able to take what some people might consider to be a rather esoteric, dry subject and put it into human terms, and I appreciate that, especially, from an authorizer's perspective.

We have several Members here. I am just going to ask you one question. Some have proposed allowing for a Biennial Budget Resolution and Reconciliation Bill, while retaining the annual appropriations process. What do you think of that proposal?

Senator MCCAIN. I do not see how that works. I would bow to the expertise of Senator Domenici, who is the most knowledgeable, I believe, on these issues. I know that Senator Lautenberg and many others are equally knowledgeable, but it seems to me I do not know how you have a biennial budgeting process and then have an annual appropriations process. I do not see how that solves the problem to any significant degree. But I would certainly be willing to listen to that argument.

I do not see how it addresses the fundamental problem we have, and that is all of our time, effort, energy is devoted to an annual appropriations process.

Chairman THOMPSON. Thank you very much. I am going to pass.

Chairman DOMENICI. Well, I do not have a question. So now we go to the Democrats to see if they have any.

Senator Lautenberg.

Senator LAUTENBERG. No. Thank you.

Chairman DOMENICI. Does anybody on this side have questions or comments?

OPENING STATEMENT OF SENATOR GRAMS

Senator GRAMS. I just wanted to ask one.

First, again, thanks very much, Mr. Chairman, for holding this hearing. I think this is very important that we look at this. But one thing the Senator had mentioned was the anti-government shutdown provision, which I strongly support.

I just wanted to ask the Senator do you believe that Congress' fear of a possible government shutdown has, in the last couple of Congresses, anyway, led to excessive spending or more spending than we would have if we would not have had it?

Senator MCCAIN. Senator Grams, I would just say I think it is obvious that, speaking from a Republican viewpoint, that we experienced a catastrophe in 1995. The American people, rightly or wrongly, placed the responsibility or blame on Republicans for not allowing essential functions of government to proceed. I still remember graphically when the Grand Canyon was shut down. That had a pretty interesting impact in my State.

And we Republicans, because of a fear of a repetition of that, have basically agreed to demands for additional spending from the Administration that we otherwise would never agree to. I think it is just that clear.

Now, why should people on the other side of the aisle care about that? My friends, because someday we will have a Republican President, and we will have exactly the same situation, only the shoe will be on the other foot. And so I would argue, also, that we have to, we must address this issue in a bipartisan fashion because of that.

And the fact is I think that when we saw the final product, that none of us were happy; in fact, most of us, on both sides of the aisle, were deeply unhappy about what the final product has been over the last couple of years, including this last one.

Senator GRAMS. Thank you, Senator. Thank you, Mr. Chairman.

Chairman DOMENICI. Any further questions? Senator Voinovich.

OPENING STATEMENT OF SENATOR VOINOVICH

Senator VOINOVICH. I have no questions.

I would just like to comment that I agree with Senator McCain and, as a former Governor who had a biennial budget, I found that having the concentration of the Administration and the legislature on that budget during that first year and getting it over with gave us the opportunity, in terms of the management of State Government; in other words, the administrative side of government, an opportunity to spend more time trying to reform the agencies and do a better job of delivering services. And, at the same time, it gave the legislative body an opportunity to really concentrate on the oversight.

There is just no question—I have lobbied this Congress for 18 years as President of the National League of Cities and Chairman of the Governors Association, and it just seems that everyone is driven by this budget, and it is every single year.

And it appears to me that too often a lot of things that ought to be looked at aren't looked at because everyone is engrossed in just trying to deal with that budget.

I think that it would provide a much better opportunity for us to do the job. And I think it would be a real advantage to the administrative side of the government because, again, their energies are being directed toward that budget process, and they cannot think of anything else but that. But once that pressure is off, then they can look at some of the other things that need to be done to do a better job in providing services to the people that we have been sent here to serve.

Chairman DOMENICI. Mr. Chairman, I am going to let you take over the management of the hearings now.

But I wanted to ask our new Senator, a long-time friend of mine, when you use the word "budget"—so that we have everything understood—there are some who refer to budget, and it is just the budget. When you refer to the budget, you are talking about both appropriations and the budget resolution, are you not?

The budget resolution does not spend any more or do any of the things that an appropriations bill does. And you have just been referring to going to 2-year budgeting. You mean our 13 appropriations bills and the budget resolution?

Senator VOINOVICH. That is exactly what I mean.

Chairman THOMPSON [presiding]. If there is nothing further, thank you very much.

Senator MCCAIN. Thanks to the Committees.

Chairman THOMPSON. We appreciate your being here.

Our second panel will be Representatives Jim Nussle, a Republican from Iowa, and Ben Cardin, a Democrat from Maryland.

They sponsored legislation in the closing days of the last Congress to reform the Federal budget process.

Gentlemen, thank you for coming over and being with us this morning.

Would you care to make any opening comments, Representative Cardin?

STATEMENT OF HON. BENJAMIN L. CARDIN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MARYLAND

Mr. CARDIN. Thank you, Chairman Thompson.

I want to thank first my colleague, Jim Nussle, for allowing me to proceed first. I have a conflict where I need to leave shortly and I would appreciate the Committee's consideration of allowing me to be excused.

Chairman Thompson, Chairman Domenici, Senator Lautenberg, Senator Lieberman, and the other Members of the Budget Committee and Governmental Affairs Committee, it is a real pleasure for me to testify with Jim Nussle today on budget reform. It has been a quarter of a century since we passed the Congressional budget process and it is right for us to take a look at reforming that process.

In the House, Mr. Kasich and Mr. Spratt formed the task force of the Budget Committee which Jim Nussle chaired. I was the ranking Democrat to take a look at the budget process. We have been working for about a year in a bipartisan manner and I want to really complement Mr. Nussle for the manner in which he conducted our inquiry during this past year.

We had tough negotiations. We had tough issues. But we always worked in a bipartisan way to try to come together on some changes in the budget process that would make us more accountable and make the process more accountable. There is nothing partisan about supporting a budget process that improves accountability and gives the American people an accurate picture of the Federal budget process. And that was how we proceeded, to try to come up with some changes that would deal with some of the problems that we have confronted.

We are in interesting times. We are now looking at trillions of dollars of budget surpluses and making sure that a budget process will deal with budget surpluses in a responsible way so that we can have a fiscally responsible future for our country, but we also are mindful that in recent years we have had government shutdowns, gridlock between the Executive and Legislative Branches of Government and the breakdown of the process in Congress, itself.

And, therefore, it is appropriate that we look at changes in the budget process. Our bill recommends major changes in the current system. We believe that we should go from a concurrent resolution to a joint resolution requiring the President's signature on the budget, itself.

We do that for many reasons. The most important is to engage the President much earlier in the process; in the spring of the year rather than in the fall of the year, so that if we have a conflict between the Executive and Legislative Branches we work out a system to resolve it at an earlier process so that we can have an orderly legislative process in the consideration of the budget.

It would also allow us to deal with the debt ceiling at the same time that we pass the budget resolution, itself; since it becomes law we can deal with the debt ceiling which is the consequence of whatever budget is enacted by Congress.

In order to avoid government shutdowns we provide for an automatic continuing resolution if Congress is unable to get an appropriations bill passed and signed by the President. But it is very important, Mr. Chairman, to point out that we do that in a neutral way. We do not take sides. The continuing resolution is the same as last year's approved level.

This process creates incentives for Congress to, in fact, get its job done. To those who want to see different spending or more spending or less spending, we do not take a position on that—but we prevent a government shutdown.

We overhaul the entire process on emergency spending—and I know there is great interest on this Committee to do something different and I must tell you, in the House, to do something different than how we have handled emergency spending in the past.

We recommend that we appropriate on an annual basis a sum for emergency spending which represents the historical average over the past 5 years, and that becomes the base for which emergency spending is dealt with on an annual basis. We also recommend that the caps be adjusted in order to deal with this reality of emergency spending.

Now, we recognize that there may be needs for even going beyond that and we have developed a process to go beyond that if necessary but the decisions as to whether that is truly an emergency is changed to make it clearer that you cannot do that just because you want to have more spending.

We also deal with the accounting procedures. I find it amazing that our budget is on a cash-basis accounting system. The Federal Government, one of the largest entities in the world if not the largest entity in the world, cannot figure out how to do more accrual accounting.

Our recommendations start us down this path by gently moving into accrual accounting for Federal insurance programs. That is probably the easiest way for us to get started and, quite frankly, I hope it is the start of more accrual accounting in our budget process because it represents a truer way in which to budget funds.

We deal with many other important issues and some very sensitive issues of enforcement and accountability. I really welcome the opportunity to be here because it is important to try to bring more consistency between how the Senate and the House operates on budget processes. We need to work together, we need to modernize the system.

There are many problems that we need to try to work out, but the bottom line is we have to do this in a bipartisan way, we have to do it with the Senate and House working together, we need a system that is more accountable for the current realities of our legislative process and I look forward to working with the Committee and hopefully coming out with some significant reform.

Thank you.

[The prepared statement of Mr. Cardin follows:]

PREPARED STATEMENT OF THE HON. BENJAMIN CARDIN

Chairman Domenici, Chairman Thompson, Senator Lautenberg, and Senator Lieberman, I am pleased to have the opportunity to appear before you this morning to testify on the reform of the Congressional budget process.

It is certainly time for a review of the process by which we in Congress, as well as the Executive Branch, make budget decisions. It has been a quarter century since the creation of the Congressional budget process, including the Budget Committees, the Congressional Budget Office, and the existence of a budget resolution.

We began this process in the House almost exactly one year ago when Chairman Kasich created the Task Force on the Budget Process. I am particularly encouraged by the bipartisan approach which has marked the establishment of this task force. While we have strong partisan differences regarding the substance of budget policy, I believe we must seek to keep the budget process free of partisan biases. There is nothing partisan about supporting a budget process that improves accountability and gives the American people an accurate and clear picture of the Federal budget. Six months of hearings on a wide range of issues was followed by bipartisan consultations and discussion. As a result of those efforts, Congressman Nussle and I introduced H.R. 4837.

The bill Rep. Nussle and I introduced proposes a number of important reforms. I would like to highlight a few of them for you.

We stand at an interesting time in the evolution of the Congressional budget process. On one hand, our fiscal outlook is stronger than it has been in decades. When we contemplate the prospect of trillions of dollars of budget surpluses over the coming years, on the heels of the largest deficits in our country's history, there is reason for satisfaction over the direction of budget policy.

On the other hand, we have seen troubling failures of the Congressional budget process. In the past few years we have had government shutdowns, gridlock between the Executive and Legislative Branches, and the breakdown of the process in Congress. These events demand a careful review to determine how we can make it work more efficiently.

The legislation we have introduced offers protections against future recurrences of the problems that have arisen under the existing system. We propose that the concurrent resolution, requiring the signature of the President.

This change would bring the President into the budget process earlier in the year. Under the current system, after submitting a budget proposal in February, the president withdraws from the process. He does not fully engage until the final negotiations on budget reconciliation legislation, in the days leading up to the start of the new fiscal year. The result, as we have seen too often, is the reality or the threat of government shutdown.

This proposal would require Congress and the President to resolve their differences much earlier in the legislative year, thereby helping to avoid crisis as the end of the fiscal year approaches. By making the budget resolution a joint resolution, which has the force of law, we could also deal with any required increases or extensions of the debt ceiling in the budget resolution. Extensions of the debt ceiling are direct consequences of the fiscal policies adopted in the budget resolution. Common sense dictates that we should, in passing a budget resolution, recognize the consequences that flow from it.

An additional provision of this legislation that is designed to guard against the uncertainty and instability of future government shutdowns would provide for an automatic continuing resolution. This proposal, which has drawn bipartisan support from both sides of the Capitol, including in the proposal put forward by Chairman Domenici, addresses the situation in which any of the annual appropriations bills has not been enacted by the start of the fiscal year. It provides that in that circumstance, the agencies covered by the appropriations will receive the same level of funding they received in the previous year, until such time as the regular appropriations bill is enacted.

It is important to point out that this provision does not prejudice the deliberations of the Congress. An automatic CR provision can only work if it is neutral in effect. That is, it should not be a tool that either increases or reduces spending for the affected agencies.

In addition to these broad changes in the budget process, the bill also addresses a number of more discreet issues. We propose an overhaul of the process by which we fund emergencies. For too long, the Federal response to emergencies has been funded almost entirely through supplemental appropriations. We should bring basic planning principles to bear on this area of Federal spending.

We will always have occasions that will demand supplemental appropriations to respond to natural disasters and other emergencies. But we can do a much better job of including emergency funding in the regular appropriations process. We propose to do that by using a rolling 5 year average of emergency spending. Importantly, this change should not affect the current caps.

In addition, we provide, for the first time, a definition of emergency. I have noted that your proposal, Chairman Domenici, also addresses the need to provide a description of what is a legitimate emergency. We have all been troubled by the inclusion of non-emergency items in emergency supplemental bills. By defining the term, we can help limit the types of spending that can be included in these bills.

I would like to call special attention to one of the more far-reaching and innovative proposals in our bill. As you know, the Federal Government, unlike virtually every other large organization in this country, reports all its outlays and receipts on a cash basis. While this approach accurately portrays some aspects of the budget, it also creates significant inefficiencies and distortions in the policy decisions we make.

Our bill proposes the application of accrual accounting principles to certain Federal insurance programs. It simply makes no sense for us to continue to ignore the long-term budget consequences of our actions. When we issue a flood insurance policy, we have a reasonable expectation of the costs that will be imposed on the treasury. We should enter that liability on our books then, rather than at some future time when the claim must be paid.

There are several other important budget reform provisions in the bill which address the sensitive issues of enforcement and accountability. These proposals are the result of extended give-and-take, and I look forward to further discussions as we consider this legislation.

The fundamental process by which we budget has benefited by the expanded capacity and involvement of the Congress. The legislation Rep. Nussle and I have introduced will further improve coordination between the Legislative and Executive Branches. It will help reduce the threat that a breakdown in the budget process leads to a shutdown of the government. It will improve the management and accountability of Federal resources.

I appreciate the opportunity to appear before you today, and I would welcome any questions you might have.

Chairman THOMPSON. Thank you very much, Representative Cardin.

And do you need to leave now?

Mr. CARDIN. I would appreciate that if that would be possible, Mr. Chairman.

Chairman THOMPSON. Well, sir, whatever your needs are. We appreciate your being with us this morning.

Mr. CARDIN. And Mr. Nussle can respond for me. I have all the confidence in the world with everything he says. He did a great job and we really have tried to speak with one voice.

Chairman THOMPSON. All right.

Senator LAUTENBERG. One quick question, if I might.

Chairman THOMPSON. Certainly.

Senator LAUTENBERG. Mr. Cardin, what would you do with any remaining unused funds in that emergency fund? Carry it over? What would you do? Return that to the budget?

Mr. CARDIN. It becomes part of the surplus. It just is returned back. It is like any other appropriation that is not spent at the end of the year.

Senator LAUTENBERG. Thank you.

Chairman THOMPSON. Thank you very much for being with us.

Mr. CARDIN. Thank you.

Chairman THOMPSON. Senator Grassley, we have your colleague with us today. Do you want to make some comments?

OPENING STATEMENT OF SENATOR GRASSLEY

Senator GRASSLEY. It is my privilege to welcome Congressman Jim Nussle from my district of residence in the State of Iowa, a leader in reform of the budget process in the House of Representatives; more importantly, a long time member of the House Budget Committee. I welcome him and, in the same vein I would like to associate myself with the movement for reform that these two

Chairmen, distinguished Chairmen, have brought in for our consideration. Hopefully, as we move the budget process along.

I am very happy to be associated with them. I would like to put a statement in the record instead of speaking it.

Chairman THOMPSON. It will be made a part of the record.

Senator GRASSLEY. Thank you very much.

[The prepared statement of Senator Grassley follows:]

PREPARED STATEMENT OF SENATOR GRASSLEY

Mr. Chairman: I commend Senators Domenici and Thompson for holding this joint hearing on budget process reform. Reform of anything in Congress is difficult at best. In the past we have talked about budget process reform. This year we have the opportunity to actually enact much needed reforms. We have already started the process with much needed changes in the Senate rules dealing with the budget.

This is a very important, historic time for the Federal budget and the budget process. Instead of sitting here talking about how changes in the Federal budget process will affect Federal deficits, we can discuss the budget process in the context of budget surpluses. This is a tremendous sea-change in attitude. We have a different playing field than we have ever had before. We have an opportunity which has not presented itself at any other time in the history of the current budget process.

It is time to fix a budget process that is very obviously broken. We consistently fail to meet the statutory deadlines which we set for ourselves. In fact, they have only been met for three times since 1974. This is unacceptable. Last year we did not even have a meaningful budget resolution at all. The appropriations process went on without us. This cannot happen again without the direst of consequences for the budget process.

I have joined with Chairman Domenici and Chairman Thompson in cosponsoring S. 92, the Biennial Budget and Appropriations Act, which provides for a biennial budget and appropriations process. This bill will help to streamline the budget process by requiring the President to submit a 2-year budget. The Congress would then pass a 2-year budget resolution and 13 2-year appropriations bills. This would give lawmakers more time to concentrate on the oversight of Federal agencies. Oversight is a very important function of government. It is a subject that I have always felt very strongly about. A consistent amount of time to do proper oversight can go a long ways to helping reduce fraud, abuse and waste in the Federal bureaucracy. A biennial budget process helps to free time for this most necessary of Congressional functions.

I have also joined Senator Domenici in introducing S. 93, the Budget Enforcement Act of 1999. This legislation includes S. 92, makes a much needed reform in the definition of “emergency spending,” redefines the Pay-As-You-Go rule, provides for an automatic continuing resolution, and clamps down on the “vote-a-thons” which have been occurring lately on the budget resolutions.

We need this type of house cleaning. We need to clamp down on the loophole of “emergency spending” before we get further caught up in spending frenzies. Last year’s massive Omnibus Consolidated and Emergency Supplemental Appropriations bill was a clarion call for reform on this point. I am proud that I voted against it.

With the new era of budget surpluses dawning upon us, we have an opportunity to wisely use the so-called on-budget surpluses. These are the surpluses that do not include social security surpluses. If we have an on-budget surplus, it is clear to me that the American taxpayer is paying much to much in taxes and deserves a refund. The taxpayer knows best how to spend, and hopefully save, their own money.

We should also put government employees at ease as to whether or not they will be paid when the fiscal year runs out, by having an automatic continuing resolution.

And we need to eliminate the “vote-a-thon” during our consideration of the budget resolution.

Mr. Chairman, I believe that S. 92 and S. 93 provide the cornerstones for meaningful budget process reform. They incorporate sound principals to guide us.

The American voters expect a lot from their elected representatives. Not the least of which is for us to produce a budget. By enacting these reforms, I believe that we can better keep faith with the voter. By keeping that faith we can help to remove some of the cynicism that the public has about Congress and the Congressional process.

It is my pleasure to welcome to the joint hearing my colleague from Iowa, Congressman Jim Nussle. Congressman Nussle, long with Congressman Cardin, has been very active in trying to define and promote Congressional budget reform. Together, they have introduced legislation in the House of Representatives on budget process reform. Welcome, Congressman Nussle.

Chairman THOMPSON. Congressman Nussle.

STATEMENT OF HON. JIM NUSSLE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. NUSSLE. Thank you, Mr. Chairman, and Senator Grassley. It has been a distinct honor to represent you and Barbara and the U.S. House of Representatives and I appreciate the kind words and introduction. Senators, colleagues, I would like to, first of all, associate myself with my colleague from Maryland's comments, Mr. Cardin.

It has been fun working with him to craft a budget process reform. And I say that and I suppose there are probably a few people watching or out in the audience or maybe even a few of you who could think how could budget process be fun? There are only a few people in the world that could think any kind of process reform would be interesting or fun. But it has been a distinct honor to work with Representative Cardin to work through a process that I would suggest to you has almost never worked.

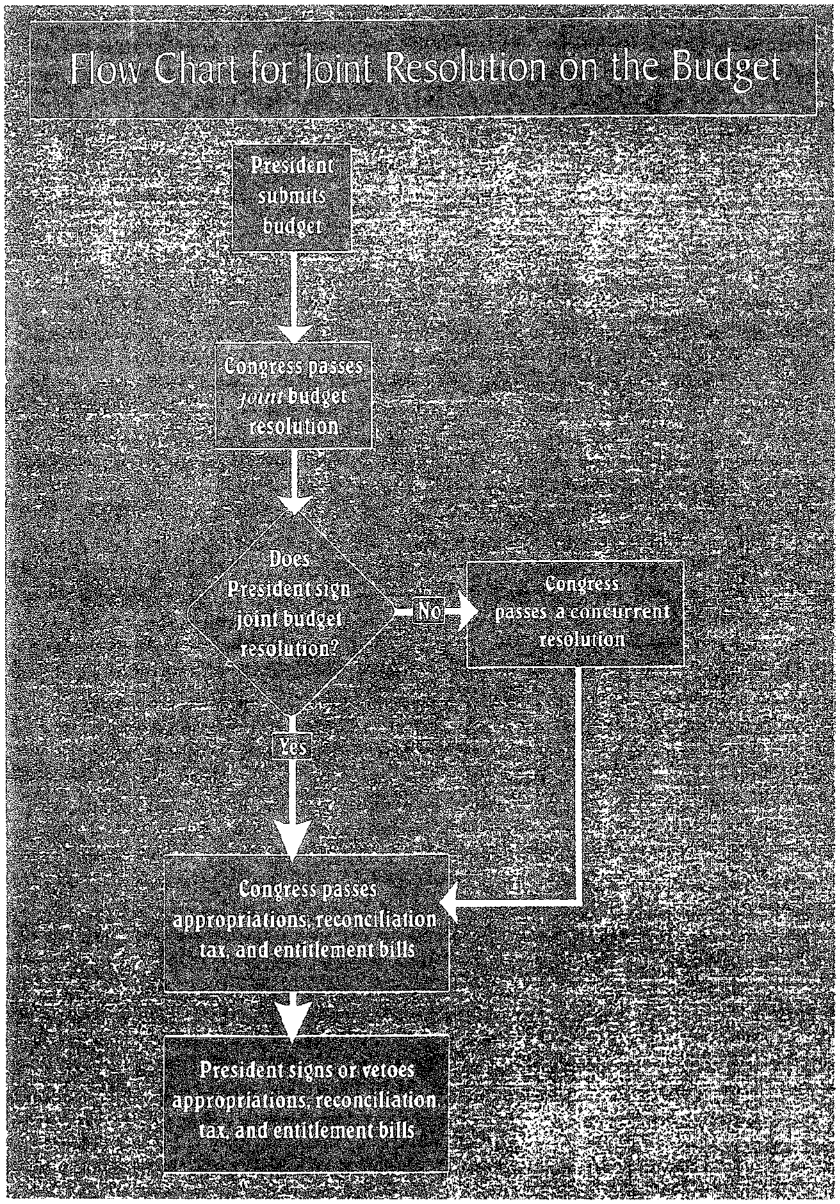
As you think back toward 1974 and the myriad of budgets that have come forth since 1974, can you think of a year where the exact process that was put into place in 1974 has worked? It has come close a few times, but I would suggest to you that we have almost never had a process that has actually worked.

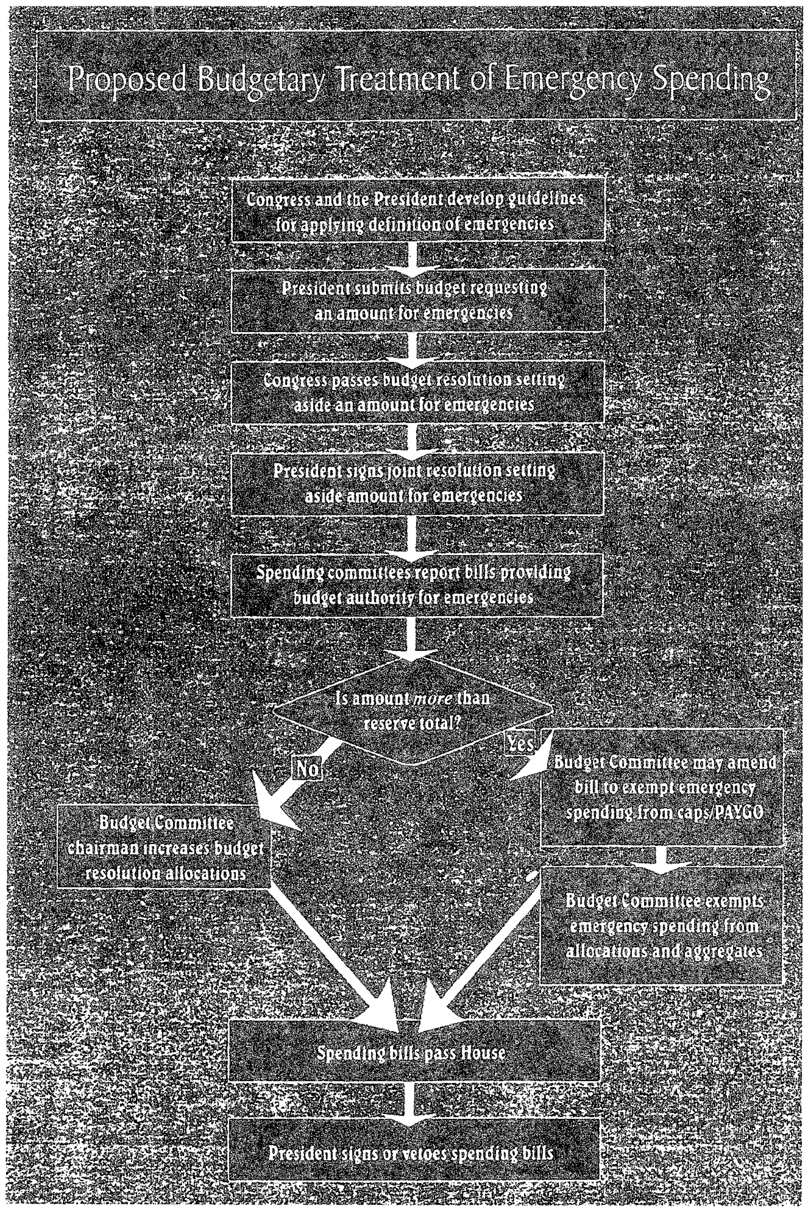
Now, some of that may be, in our opinion, good, that it is flexible enough to meet the challenges of the different pressures from 1 year to the next. But I would suggest to you that within that we looked, as a task force, to a year that worked the best. And in my opinion and in the opinion of, I think, many, 1997 was probably the year where the budget process worked the best. And if we harken back to that time, we remember that Senator Domenici and Congressman Kasich and many others began early in the process working to come up with a memorandum of agreement, with the President, with the Congress, in order to establish early in the process the aggregate numbers from which to work.

And, so, as we look to the budget process, we looked toward 1997 and we tried to put into law or into codification that which was part of 1997. We came up with eight principles that we felt were important: (1) It gives the budget the force of law; (2) it budgets for emergencies, something that just about every witness today has touched on and the Senators that have spoken as well; (3) it discloses the unfunded liabilities of the Federal insurance programs that we all know are not being adequately accounted for within our current budget; (4) it strengthens the enforcement of budget decisions; (5) it mitigates the bias in the budget towards higher spending with baseline budgeting; (6) it displays the unfunded liabilities of insurance programs; (7) it prevents government shutdowns; and (8) it increases the budgetary flexibility when there is on-budget surpluses.

Now, in order to walk you through this, I have put together some charts. Let me just walk you through how this budget process will work and direct you to the flow chart on the joint resolution for the budget.

[The charts referred to follows:]




Proposed Budgetary Treatment of Emergency Spending
Congress and the President develop guidelines for applying definition of emergencies
President submits budget requesting an amount for emergencies
Congress passes budget resolution setting aside an amount for emergencies
President signs joint resolution setting aside amount for emergencies
Spending committees report bills providing budget authority for emergencies
Is amount more than reserve total?
No
Yes
Budget Committee chairman increases budget resolution allocations
Budget Committee may amend bill to exempt emergency spending from caps/PAYGO
Budget Committee exempts emergency spending from allocations and aggregates
Spending bills pass House
President signs or vetoes spending bills

Mr. NUSSLE. Currently, of course, we have a concurrent resolution. It does not have the force of law. Congress passes it; the President does not sign it. What we are suggesting is early on in the process the President submits the budget and Congress passes a joint resolution, in other words, a bill that the President has to sign.

In order to successfully do that, we have to almost copy the process that occurred in 1997. Senator Domenici and Congressman Kasich met early with the administration; that the Budget Committees, the leadership would meet early with the administration and talk and come up with an agreement that could be the force or the road map for the rest of the year.

Once we were able to pass a budget resolution—and let me just refer to you what that budget resolution would look like. This is a current concurrent budget resolution. As you see it has a number of functions, and this is exactly what we would hope the new budget resolution would look like: very short, sweet, to the point, one page, total spending, revenues, the surplus, the deficit on-budget—and we will get to that I am sure in questions.

With regard to taking Social Security off-budget, making sure that it is reserved only for Social Security, and that it would, in fact, be identified then as surpluses on-budget. Any debt, subject to limits, total mandatory, total discretionary, total non-defense discretionary, defense discretionary and total reserve fund for emergencies. As we indicated before we are going to begin, according to our proposal, budgeting for emergencies.

Since we are on that subject, let me just turn to that real quick. This is our proposal for budgeting for emergency spending. Basically when we conducted our hearings, what we discovered was that even though they are unforeseen—that is what emergency is all about, it is unforeseen—even though we have had unforeseen expenditures we can almost guarantee you the amount that has been unforeseen in the last 10 or 15 years. It has been about $5, $6, or $7 billion dollars.

And, so, while we do not know when the next hurricane will hit we know it is going to hit. While we do not know that there is going to be an earthquake, we know there may be. And if we do not budget for it, those emergencies will come up and bite us and we want to try and figure out a way to budget for that in the future. So, Congress and the President will develop guidelines for applying the definitions of emergencies.

Now, interestingly enough based on what we have been able to discover, our bill is very similar to Senator Domenici's bill with regard to the definition of emergencies. We would submit, the President would submit his budget request and the amount for emergencies and the Director of FEMA, James Lee Whitt, who testified before our task force, suggests that they could come up with a very adequate number for that purpose and that they could give us on a 5-year rolling average what that number would be.

Congress would pass the resolution. The President would sign it. The spending committee would report bills providing for budget authority for emergencies.

Now, is the amount more or less than the reserve total? All right? And that is the reserve for emergencies. If it is not, the

Budget Committee Chairman would increase the budget resolution allocations for that Committee; the bill would sail through and there would be no problem.

If the amount of money requested is more than the reserve then the Budget Committee would amend the bill to exempt the emergency from PAYGO if, in fact, it was a legitimate emergency and the Budget Committee would exempt that emergency from allocations and the bill would go to the floor.

So, basically what we are putting in here is a hurdle that the Budget Committee would act as a crossing guard, if you will, to make sure that the definition was enforced, to make sure that the aggregates were enforced and to try and, as a result of budgeting for emergencies, try and bring more accountability to that process. Those are the items that we covered in our task force.

And I would just suggest to you that we did not in this process try and come up with substantive policy changes. In other words, we did not say that we want to be able to get a tax cut, so, let us come up with a budget process that allows us to do that. Or we want to be able to cut spending more easily, so, let us come up with a process that allows us to do that. We did not do that at all.

In our deliberations we tried to remove ourselves from the current politics, from current policy discussions and just talk about the process, the decision making process that gets us to this point.

And, again, I would suggest to you that as you look back, from today back to 1974, the year that it was the most successful was 1997 and our attempt in this bill is to codify the process that was used in 1997 as closely as possible, still allowing for flexibility; understanding that as Senator Voinovich mentioned, that you do not know from 1 year to the next, but it allows you to make those kinds of decisions early in the process so you try and take the endgame politics out of the bill, itself.

That is my presentation. I have a statement I would like to submit for the record, Senators, but I would be happy to try and answer questions on my bill or anything else.

Thank you.

[The prepared statement of Mr. Nussle follows:]

PREPARED STATEMENT OF HON. JIM NUSSLE

I want to thank Senators Domenici, Lautenberg, Thompson and Lieberman for affording me and my good friend and colleague, Representative Ben Cardin (D–MD), the opportunity to testify before this hearing of your two committees on the bipartisan budget process reform bill (The Comprehensive Budget Process Reform Act—H.R. 4837) we introduced in the waning days of the 105th Congress. I am encouraged by your actions on this important subject so early in the 106th Congress.

Before I begin my testimony, I would be remiss if I did not point out that there are a number of Representatives who have worked equally as hard as Congressman Cardin and I have on this bipartisan bill. Specifically, Representative Porter Goss (R–FL), who chairs the Rules Subcommittee on Legislative and Budget Process, was instrumental in drafting this bill. I have enclosed testimony prepared by Representative Goss that I would ask be submitted for the record. Additionally, Chairmen Kasich and Dreier along with Representatives Minge (D–MN), Sununu (R–NH), Radanovich (R–CA) and Granger (R–TX) also played key roles in the development of this bill.

In February of 1998, Chairman Kasich appointed a bipartisan task force on budget process reform to address such issues as the nature and structure of the budget resolution, the budgetary treatment of emergencies, budgeting for contingent liabilities, and baselines and budgetary projections. Chairman Kasich deserves much of the credit for this bill as he urged me to work with the Democrats on the Task Force and gave me the necessary support at critical junctures in the process to produce a bill.

Going into this process, we all knew that Congressional budgeting practices could be improved. We also knew the Congressional Budget Act of 1974 needed to be examined with an eye towards an era of balanced budgets and "surplus" revenues. What we did not envision, however, were the difficulties experienced with the budget resolution for fiscal year 1999 or the manner in which the final spending bills were cobbled together.

Our task force held a series of topical hearings on budget process reform in the spring of 1998. We heard a number of very good suggestions and ideas from outside experts in budget policy, such as the distinguished former Representative Tim Penny who co-chairs the Committee for a Responsible Federal Budget; Dr. James Lee Witt, Director of the Federal Emergency Management Agency (FEMA); Allen Schick, Visiting Fellow, Brookings Institution; Rudolph Penner, the former director of the Congressional Budget Office; and Susan Irving, the Director of Budget Issues of the General Accounting Office. Our task force also heard testimony from nine of our colleagues in the House who have a long-standing interest in budget process reform.

During the summer and early fall we began drafting legislation based on the lessons learned from our hearings. We worked in a deliberate and bipartisan manner to craft this legislation over a period of almost 3 months. As a result of our efforts, we were able to secure the support of a majority of the members of the task force on both sides of the aisle. We also drew the attention of Representatives who do not serve on the Budget Committee and won the support of respected Members such as Representative Stenholm (D–TX), Representative Barton (R–TX) and Representative Castle (R–DE).

I would also like to recognize the contributions of the many talented staff members who have logged numerous hours in this process. Jim Bates and Carl Christie of the Budget Committee Majority Staff as well as Richard Kogan of the Budget Committee Minority staff proved to be valuable resources and reliable counselors in this process. Additionally, David Koshgarian of Representative Cardin's staff and Rich Meade of my staff were also instrumental in the development of this legislation.

Unfortunately, the fruit of our labor could not be harvested during the hectic closing days of the 105th Congress. Since we had crafted our bill in a bipartisan manner, we did not want it to become the object of a partisan attack from either side of the aisle.

Our bill is based on the assumption that the following fundamental principles should be used while developing a new budget process. Congress should adopt and conduct a budget process that:

(1) gives the budget the force of law;
(2) budgets for emergencies;
(3) discloses the unfunded liabilities of Federal insurance Programs;
(4) strengthens the enforcement of budgetary decisions;
(5) mitigates the bias in the budget process towards higher spending;
(6) displays the unfunded liabilities of Federal insurance programs;
(7) prevents government shutdowns; and
(8) increases budgetary flexibility when there is an on-budget surplus.

The following is an outline of the major provisions of the bill.

JOINT BUDGET RESOLUTION

Perhaps the most important element of the Comprehensive Budget Process Reform Act is the conversion of the existing concurrent resolution into a joint budget resolution which would have the force of law when signed by the President. Under the current budget process, Congress and the President are required to agree on individual tax and spending bills but not the overall framework of the budget. Each year the President presents a detailed, programmatic budget and the Congress passes a concurrent resolution that establishes a common Congressional framework for the consideration of subsequent tax and spending bills. The only way that the President can affect total spending and revenue levels is by vetoing individual bills. Consequently, the budget process bogs down as the President may reject individual bills because he does not concur with the overall levels on which they are based.

This dynamic was clearly in play in the 104th Congress when the President repeatedly vetoed appropriations bills in part because they were based on an overall level of discretionary spending that he found unacceptable. Finally in 1997, the Congress and the President committed to a common budgetary framework in a Memorandum of Understanding between the Congress and the President. The MOU essentially served as a joint budget resolution establishing the overall parameters for subsequent tax and spending legislation. In fact, Congress and the President have turned to such MOU's each time there has been a major budget agreement and the Congress and the President were controlled by different political parties.

Our bill was developed with the hope that we can regularly repeat the great cooperation between Congress and the President that led to the historic Balanced Budget Act of 1997. That process worked because Congress and President Clinton agreed to basic principles and a framework at the beginning of the budget negotiations process, and weren't forced to negotiate under pressure of a deadline at the end of the budget process.

If the President signs the joint budget resolution, Congress would move tax and spending bills, which would be governed by the spending limits established in the joint budget resolution. The President would still sign or veto each spending bill as it passed Congress. If the President refused to sign the joint budget resolution, Congress could quickly pass a concurrent budget resolution and operate in a manner similar to the current process.

In order to focus initial negotiations on the broad framework of the budget, the Comprehensive Budget Process Reform Act would restructure the budget resolution. The bill replaces the 20 functional categories of spending in the budget resolution with seven categories of budget aggregates: Defense discretionary, non-defense discretionary, total discretionary, mandatory spending, revenue, debt, and a reserve fund for emergencies. The budget resolution would become a device for reaching an agreement on overall spending and revenue levels. Policy and distributional issues would be settled in subsequent negotiations over individual tax and spending bills.

Reserve Fund for Emergencies

Another key element of the Comprehensive Budget Process Reform Act is its reform of the treatment of emergency spending. In recent years, emergency spending has increased dramatically, primarily as a consequence of devastating events such as the Northridge earthquake and Hurricane Hugo. However, higher emergency spending has also been driven in part by the fact that emergency spending does not count against the statutory spending caps under current budgetary rules, making it essentially "free" money.

As was seen at the end of the last Congress in the Omnibus Appropriations Act, emergency spending is basically defined as whatever the President and Congress say it is. The Comprehensive Budget Process Reform Act sets forth clear, concise criteria as to what constitutes an emergency. These criteria, which are based upon the OMB definition of emergency spending adopted following the Gulf War, are that the spending must be for the prevention or mitigation of, or response to, loss of life or property, or a threat to national security; and is unanticipated. Unanticipated means that the situation is sudden, urgent, unforeseen, and temporary. I am pleased to note that the budget process reform legislation introduced by Senator Domenici includes similar emergency criteria.

The more concise definition of emergency included in the Comprehensive Budget Process Reform Act should help curb some of the more flagrant examples of abuse. For example, while I agree with those who contend that the Year 2000 computer problem (Y2K) is a serious issue, it would not constitute an emergency under the definition included in this bill. Nor should Y2K be considered an emergency, we've known about the challenges the year 2000 will present for a number of years.

The bipartisan Comprehensive Budget Process Reform Act would also reduce the incentives to mischaracterize spending as emergency spending by creating a reserve fund for emergency aid, and reserve that money exclusively for emergencies. By contrast, under current law there is no limit to how much money can be spent on emergencies. The bill would require Congress and the President to set aside an amount equal to the 5-year historical average spending for emergencies. That money could not be spent unless the situation in question meets the criteria of emergency defined in the bill.

I believe there is much to commend this approach. First of all, it provides a reasonable assurance that emergency spending will go to legitimate emergencies. Second, it preserves Congress's power over the purse because it is the Congress that determines whether a legitimate emergency exists. Third, it could relieve the Congress of the time-consuming task of finding offsets for individual emergencies because the reserve would come out of the caps. Fourth, it is based on a tried and tested mechanism for augmenting the budget for bills that provide funds for specified purposes. Since the enactment of the Budget Enforcement Act in 1990, the Chairmen of the Budget Committees have adjusted committees' allocations for such factors as continuing disability reviews, arrearages, and land acquisitions. Finally, the beauty of the reserve fund concept is that if we set aside more money for disasters than is required, that amount simply increases the surplus, because the money actually never was appropriated.

ACCOUNTABILITY FOR ENTITLEMENT SPENDING

Our bill would establish several procedures to curb the proliferation of new entitlement programs. Entitlements provide direct spending because, once they are authorized, the spending occurs automatically unless the underlying law is amended or repealed. The funding levels for these programs are determined by the number of eligible participants, the eligibility requirements and the benefit levels in the underlying law.

Despite measures in the 1974 Budget Act designed to curb so called non-controllable spending, the number of new entitlement programs has dramatically increased. According to the General Accounting Office, there were 145 more mandatory programs in 1996 than there were 10 years earlier.

The Comprehensive Budget Process Reform Act requires that any proposal for new entitlement spending, whether included in the President's budget or Congressional bills, include a justification for not subjecting the spending to annual appropriations. This will encourage those proposing new entitlement spending to at least take closer look at the programs and determine whether they really need to be entitlements.

This bill also allows Members to offer amendments to subject proposed entitlement programs to annual appropriations. It limits the ability of the House to waive this right and makes any such amendment germane to the bill. To facilitate the conversion of entitlements into discretionary programs, the bill holds the Appropriations Committee harmless for new discretionary spending that is offset by designated reductions in direct spending.

SUNSETTING AND EXPANDED OVERSIGHT

The bill includes a series of small but enforceable steps towards requiring all committees to systematically re-authorize all Federal spending programs. I take as an operating premise that no program, however important, should be immune from Congressional oversight.

The bill requires all committees to submit a plan for re-authorizing all programs, both mandatory and discretionary, at least once every 10 years. The House is prohibited from considering the expense resolution of any committee that fails to submit a reauthorization plan.

The bill prohibits the consideration in the House of any bill that creates a new program that is not sunset within 10 years. Any bill that authorizes a program for more than 10 years would be subject to a point of order. Significantly, this requirement would only apply to new programs, and neither new nor existing programs would automatically sunset if they were authorized for a shorter period.

AUTOMATIC CONTINUING RESOLUTION

We take the bold step of agreeing to an automatic continuing resolution in order to prevent future government shutdowns. Our bill would provide for an automatic interim appropriation for any program, project or activity for which an appropriations bill is not enacted by the beginning of the fiscal year. Funding would continue at the prior year's level indefinitely, or until Congress and the President are able to reach agreement on the appropriate spending levels.

I believe that an automatic CR will take away from both the President and Congress the incentive to refuse to negotiate in good faith on appropriations bills on the assumption that one side or the other will bear the wrath of the public for shutting down the Federal Government.

I was pleased to find out that Senator Domenici included a similar automatic continuing resolution in the budget process reform bill he introduced several weeks ago.

"BASELINE" BUDGETING

The bill takes a small step towards changing the baseline mentality that contends that any attempt to slow down the growth in spending constitutes a cut. Drawing from a House-passed bill offered by Representatives Stenholm and Penny during the 103rd Congress, our bill requires that Presidential budget submissions, budget resolutions, appropriations reports, and cost estimates compare proposed spending and revenue levels with the actual spending levels of the prior year.

We also try to shed light on the sources of projected growth in entitlement spending which is expected to explode early in the next century. The bill requires both the Office of Management and Budget and the Congressional Budget Office to periodically report on such sources of projected growth in mandatory spending as inflation, changes in medical technologies, and program enrollment.

BUDGET FOR CONTINGENT LIABILITIES

During the Task Force hearing and discussion with GAO, CBO, and OMB, it became clear that existing cash-based, short-term budgeting and accounting procedures do not capture the contingent liabilities and other long-term programmatic costs of Federal insurance programs. Accordingly, this bill provides for a shift to accrual budgeting for Federal insurance programs, as well as other measures intended to capture the medium-term costs of proposed legislation and the long-term budgetary implications of current and proposed budget priorities.

Currently, the budget shows the short-term cash flows for such Federal insurance programs as deposit, pension and political risk insurance. Frequently, the premiums paid into the insurance programs do not reflect the program's long term costs to the Federal Government. Not surprisingly, policy makers have little incentive to take measures that would minimize the financial risk posed by these programs over the long term. There is a strong incentive for policy makers to embrace policies that provide short-term budgetary relief but exacerbate financial problems over the long run.

Building on the principles of credit reform for loans and loan guarantees, this bill requires OMB, CBO and Federal agencies to estimate the expected loss from Federal insurance programs instead of short term cash flows. Congress and the President would ultimately be required to budget each year for the expected losses from new and expanded insurance programs.

Additional changes are made in the budget process to capture other long-term costs that are not reflected the budget. Most importantly, it extends the horizon for the cost estimates of proposed legislation from 5 to 10 fiscal years. Additionally, it requires OMB and CBO to periodically report on long-term budgetary trends under current law and as proposed by the President.

"PAYGO" REQUIREMENTS AND THE SURPLUS

We were even able to find common ground on permitting the surplus to be used for tax cuts and other initiatives if the budget is in balance without counting Social Security surpluses. Under existing PAYGO requirements, tax and entitlement legislation must be offset by entitlement cuts or tax increases. Our bill permits tax cuts without offsets so long as the Federal Government is running an on-budget surplus. Notwithstanding our agreement on this element of the bill, we may very well disagree on what the surplus should be used for whether further PAYGO reforms are in order.

"LOCK-BOX" FOR SPENDING CUTS

Our bill establishes procedures to lock in savings from floor amendments to increase the surplus. The provision is similar to lock box provisions that have passed the House with bipartisan majorities. Under the lock-box, both the caps and appropriate levels in the budget resolution are automatically reduced by the amount of a floor amendment that reduces an appropriation line-item. This mechanism effectively prevents the Appropriations Committee from reprogramming savings from floor amendments to other programs in the same or another subcommittee allocation.

The lock-box is not an entirely new concept to the Senate—the Line Item Veto Act of 1996 (P.L. 104-130) included a lock box mechanism that, among other things, reduced the caps by the amount of savings resulting from rescissions. Unfortunately, the Line Item Veto was struck down last year by the Supreme Court for unrelated reasons.

I again commend your committees for turning your attention to this important subject at the outset of the 106th Congress. I firmly believe that the further we get into the budget cycle, the more difficult it will be for Congress and the Administration to agree on budget process reform.

While there are only a few of us on either side of the Capitol who can get excited about this subject, reforming our budgetary process is vitally important. The budget and spending bills for fiscal year 1999 should be reason enough for Congress to move quickly on comprehensive budget process reform legislation such as the bipartisan bill Congressman Cardin and I introduced last year.

PREPARED STATEMENT OF CONGRESSMAN PORTER GOSS

Any American that witnessed the frantic endgame politics that accompanied the close of the 105th Congress knows that the way we budget and spend taxpayer dollars here in Washington is badly in need of reform. I am pleased that these two august committees have hit the ground running with substantive hearings to find a workable solution.

On the House side, the two committees of jurisdiction—Budget and Rules—have also been working closely to devise a workable alternative. I would like to commend in particular the leadership of Budget Committee Chairman Kasich, Budget Process Task Force Chairman Nussle, former Rules Committee Chairman Solomon and our current Chairman, Rep. Dreier. I would also like to call attention to the work of Rep. Cardin who, as Ranking Member of the Budget Committee's Task Force, provided both exceptional insight into the problems plaguing the current system and a willingness to work across party lines.

As Chairman of the Subcommittee on Legislative and Budget Process, I have long been interested in reforming our antiquated budget process and I am proud to announce that our efforts in the House have paid off with a common sense, bipartisan plan. The "Comprehensive Budget Process Reform Act" is not a quick fix solution to last year's problems, but rather a realistic effort that borrows heavily from the good work and ideas of many Members, budget experts and citizen groups.

The current system provides too many incentives for partisan confrontation, rather than serious negotiation. For that reason, the cornerstone of our legislation is a joint budget resolution, which would enable the White House and Congress to reach agreement on the big numbers at the beginning of the process, rather than at the end of the fiscal year. The key is that the joint resolution, because it is signed by the President, would have the force of law. Comity and bipartisanship cannot be legislated, but some of the obstacles to those goals can be removed.

Another problem is the lack of accountability in the way we pay for emergencies. In last year's infamous Omnibus Appropriations bill alone, we spent more than $20 billion on "emergency items," many of which clearly do not fall under any American's reasonable definition of the term. Under our bill, Congress and the President would have to budget up front for emergencies. True disaster assistance would be expedited but the exercise of using the "emergency" label to avoid paying for items would be curtailed.

Having served on the bipartisan Kerrey Commission, I know that reforming our budget process will mean little if we ignore the very real problems in our entitlement programs. For that reason, our bill adopts the Commission's most important budget process recommendation. Originally authored by Senator Kerrey, the provision requires the President and the CBO to provide reports on long term budgetary trends. As a fellow "graduate" of the Kerrey Commission, Chairman Domenici understands the need for a wider budgetary snapshot when it comes to our entitlement programs, to make the right choices for next week and beyond and not merely tomorrow.

Finally, I would like to touch on some of the specific changes in House rules we have included to improve the process. We have imposed a sunsetting requirement, to require committees to reauthorize all laws, programs and agencies in their jurisdictions at least every ten years. Budget compliance statements will require committees to state whether reported bills are within the budgetary levels set forth by the budget resolution. Similarly, requiring ten-year cost estimates will deter committees from moving budget-busting legislation whose costs explode in the "out years." Finally, but perhaps most importantly, we repeal Rule 23 (formerly Rule 49) , commonly referred to as the "Gephardt Rule," to require the House to vote each time it increases the limit on the public debt. Each of these measures would restore some overdue accountability to the way we consider legislation in the House of Representatives.

We do not pretend to have all the answers, or a perfect package. I certainly appreciate the internal jurisdictional issues at play and understand that this is a work in process. I also understand that there will be some honest differences between the two Houses. However, this bill is the product of the two committees with jurisdiction over the budget process in the House and I think a good first step. I look forward to moving our bill through the process, hopeful that we will be able to reach common ground and enact significant budget process legislation in this Congress.

Chairman THOMPSON. Thank you very much, Congressman Nussle. You reminded me that the 1974 Budget Act was one of the so-called Watergate reforms, that we are now trying to improve. As Senator Domenici pointed out, the idea had been around for some time. But, with President Nixon's weakness during that period of time, it was able to pass and, of course, kind of place Congress in the ascendancy in some people's eyes. Now, we are trying to figure out a way to do it much better.

Just one question. As you know, biennial budgeting has enjoyed strong interest among Senators for some time. It passed the Governmental Affairs Committee 13-to-1 in the last Congress. But over in the House it seems to me like we have got a very practical problem and that is the Appropriations Committee situation.

It is an exclusive committee in the House. If you sit on the Appropriations Committee, as I understand it, you do not sit on any other committee, unless you obtain a waiver.

So, what are our prospects in the House? Are people going to look at this as a diminution of the authority of the appropriators; is there any way we can make this more palatable for them, so that we have a better chance of getting the biennial budget passed, not only in the Senate, but also in the House?

Mr. NUSSLE. My reaction is that particularly with the appropriators you would have a difficult time with biennial budgeting and I think it is a practical matter more than anything else. When you have only 2 years in your term, I think you tend to take a much shorter approach, much shorter view on the process than you would if you have 6 years. I think that is a practical matter.

I jokingly said to my staff yesterday, maybe we ought to trade you for a 4-year term. We will give you 2-year budgets and a 4-year term. But I am not sure that we are here to negotiate that today. But I think it will meet with that concern, particularly from the appropriators.

I think there have been some other items, however, that have been mentioned that do concern me as a budgeter and, particularly, in the area of supplementals. It has been suggested that with a biennial budget that you almost guarantee more supplemental appropriations. I am not sure that is necessarily the case but I think it is a legitimate concern that has been raised.

Most of what we have tried to accomplish with budgeting for emergencies, with some of the other safeguards and accountabilities we have put into our bill is to try and shy away from the proliferation of these kinds of supplemental bills. So, I would suggest that biennial budgeting would come against some opposition, some strong opposition in the House, and my guess is, on the Budget Committee today, that it would not have the majority of support.

Chairman THOMPSON. Senator Domenici, do you have anything?

Chairman DOMENICI. Yes. Thank you, Mr. Chairman.

First, I want to say to you, Congressman Nussle, with reference to emergencies I personally welcome your suggestions. I do not know if we could end up agreeing to them precisely as you recommend but you surely make a point and there have been a number of Senators who say, why do we not allocate based upon a 5, 6, or 7-year average?

You have added to that an interesting concept to budget for emergencies with funds over and above the caps on spending. You would still be recognizing the budget impact of an emergency as it is defined now.

I just want to tell you about a concern of some people and that is every penny of your emergency reserve will be appropriated. If you put $7 billion in it, Congress will find $7 billion worth of emergencies. I do not know that. That is a concern submitted to us by those who have watched things around here.

Mr. NUSSLE. That is part of the reason, if I might interject, why when Mr. Cardin answered Mr. Lautenberg's question that we do not allow it to carry over in a rolling or roll-over because it would be spent if it was allowed to roll over.

Chairman DOMENICI. Let me make just two other points. Frankly, I think you know that the idea of a joint resolution is not new. Let me just think back to when it was first introduced as a measure. I think it was a bill introduced by Senator Domenici and Senator Bennett Johnston 12 or 14 years ago. That does not say that it has not matured and in the process become better.

But essentially it is—if you want to change the entire concept of what a budget is and the budget process then you go to a joint resolution. We have in our proposal here that you ought to know, we have streamlined the budget somewhat as you are recommending in your joint resolution in terms of what is included in it, because that is all that would end up being binding anyway and we get ourselves in a huge argument with reference to detailed programming which is not the prerogative of the Budget Committee.

My last observation, and I would very much like in due course to share with a number of House members: We have a very large array of appropriators who are now for 2-year appropriations and 2-year budgeting. And I think we will try to come over and talk with all of you and give you our best shot at this.

I would just submit to you that I do not believe that appropriators—and I am one—I do not believe they should dictate the processes of this government. I think we all have to look at whether this process is working.

You are thinking that this might help make it work better. I am convinced that if you look at the history we cannot produce 13 appropriations bills every year. When we did not have a budget resolution we did not do them on time. We changed the time to allow more time, we did not get them done. We have a budget process and we do not get them done.

And I think there is an inordinate amount of leverage currently available to the Chief Executive under those circumstances and I think they catch us every single year.

I guess I come to the conclusion that maybe they ought to catch us once every 2 years and we ought not have to put up with the leveraging that goes on. I am not saying who is right, but the leveraging occurs in an incredible manner because we are short of time, we are running out of time, and we face closing down government.

And, second, I think we need to continue to ask the departments of this government how much better would government be served if they did not have to produce a budget every year. I have done that in the past.

You would be startled as to the savings and the receptivity on the part of those who participate in government. We finally finish the budget for a year, have a Christmas recess holiday, and they start the process again, come January, to produce another submission.

That is just too much for a government this size and, frankly, that is why we are tying ourselves in knots. So, I would like at some point, as you have done here, to bring a group of Senators and try to talk about the need to look at some streamlining.

Mr. NUSSLE. Well, we would welcome that. If I could just point out, too, Senator, Congressman Cardin and I stand on the shoulders of many who have come before us with regard to reform and the budget. I think of not only yourself with regard to the joint resolution, but Congressman Cox and Barton in the House; Porter Goss, who has worked on this, so many people that have provided proposals and ideas.

So, I get to be the guy to sit here today and wrap them all in a package and present them but, clearly over the years, many years, there have been many that have done that.

Second, with regard to the end-game or the shutdown scenario, we have put in another appropriation controversial item in our bill which is the automatic continuing resolution which would suggest that if you do not or are not able to or cannot or do not want to do an appropriation on an annual basis that it would, in fact, carry over with an automatic continuing resolution at that. And we do not put in any kind of penalty. We do not automatically game it to the negative or to the positive. We suggest that that appropriations would continue at that year's level.

That is one of the agreements that Congressman Cardin and I worked on very carefully because we know there is within the system those of us who are conservative budget-cutters, we wanted there to be a penalty if you could not get to an appropriation. There were those on the opposite side who wanted there to be an automatic baseline increase.

So, we came up with this automatic, even number to try and meet that but we would certainly be interested in working with the Senate on budget process reform and would welcome a group of Senators to work together on this.

So, thank you.

Chairman DOMENICI. Thank you, Mr. Chairman.

Chairman THOMPSON. Thank you very much.

Senator Lautenberg.

Senator LAUTENBERG. No questions.

Chairman THOMPSON. Senator Voinovich.

Senator VOINOVICH. I have no questions.

Chairman THOMPSON. Senator Grams.

Senator GRAMS. I cannot let this go by, Congressman Nussle, I thank you for coming. One question, a couple I had, but first having the President sign a joint budget resolution, are we interjecting the President too early in the process? In other words, Congress controls the purse-strings; bringing him in and at this early date I know we could maybe face a standoff here rather than in October.

But is there a purpose why you would have the joint resolution have to be signed by the President?

Mr. NUSSLE. Well, the whole purpose of—and, first of all, to answer your question, if he does not sign it, we move immediately or may move immediately to concurrent resolution which is our current process. So, there is nothing to suggest that the process could be stopped by the President early in the process.

However, what we are suggesting is that, again, looking back at a model that was not necessarily anywhere in law but a model of 1997, what seemed to work in 1997 is that the aggregate numbers, basically that which I showed you on that chart which we would come up with as a joint resolution, the aggregate numbers is what we came up with in 1997 as a memorandum of agreement.

Now, it was binding on the good faith of the parties that the budget agreement, we would always roll that out, we agreed to this early on. All we are suggesting is, fine, if it is going to be done in that fashion make it law. So, that there is no discussion, there is no question about whether or not it is binding. It is binding. And then from there it would drive the rest of the process.

But in no way are we suggesting that if the President decides not to negotiate in good faith or, for that matter, if the Congress decides not to negotiate in good faith the regular concurrent budget process and concurrent resolution budget process would continue.

Senator GRAMS. OK. Thank you very much. Thank you, Mr. Chairman.

Chairman THOMPSON. Congressman, thank you very much for your leadership. We look forward to continuing to work with you on this.

Mr. NUSSLE. Thank you, Mr. Chairman.

Chairman THOMPSON. Finally, we turn to our third panel of witnesses. Tim Muris is a professor at George Mason School of Law. Mr. Muris was a key staffer at OMB during the Reagan Administration.

Martha Phillips serves as Executive Director of the Concord Coalition. She formerly served as a Republican Staff Director for the House Budget Committee. I understand Ms. Phillips is spending part of her birthday with us today. Happy Birthday.

Dr. Van Ooms is Vice President of the Committee for Economic Development. Dr. Ooms has worked for the Democratic Staffs of the House and Senate Budget Committees and worked at OMB during the Carter Administration.

We are pleased that you could join us. Without objections, your written statements will be made a part of the record.

Any opening comments that you would care to make will be heard now. Who would like to go first?

Mr. Muris.

STATEMENT OF TIMOTHY J. MURIS, PROFESSOR OF LAW, GEORGE MASON UNIVERSITY SCHOOL OF LAW

Mr. MURIS. Thank you very much, Senator Thompson and Members of the Committees.

Let me make a few brief points.

First, I want to look at recent budget history. One of the interesting points is on page 2 of my testimony, giving CBO's projections from July 1981, which showed the budget moving into massive surpluses. By 1996, there was going to be a surplus of over $200 billion. In those days people talked about GNP instead of GDP, and it was going to be 4.3 percent of GNP. Reality was just a little bit different. There was a deficit of over $200 billion.

The point of this little tour of budget history is two-fold. One, humility for all involved in the budget process is in order. The three most important events in the rise and fall of the recent large deficits were all unforeseen. One was the recession of the early 1980's, which was the worst recession since the Great Depression. The second was the end of the Cold War, and the third was the recent massive revenue surge. Each of these events was unforeseen.

My second point is that the budget process has become inflexible. Before the mid-1970's, large deficits appeared occasionally—deficits of the size, for example, of 2 percent of GDP. But they quickly disappeared. By the mid-1970's, however, even before the large deficits of the early 1980's, we had a period when in 6 of the 7 years before 1982 the deficit was already greater than or equal to 2 percent of GDP.

A major reason for that inflexibility is what I call the balkanization of spending authority. For most of our history the appropriators controlled the vast majority of the spending. When the appropriators have had control over all the spending we have not had a deficit problem.

We have had a few relevant episodes in our history. In the late 19th and early 20th Century, the appropriators lost control. What followed were increases in spending and significant deficits. In the 1920's, the appropriators got control again. The deficits were eliminated and we ran surpluses.

Starting in the 1930's the appropriators began to lose control again. Mandatory spending became a very large chunk of the budget by the mid-1970's. It is not an accident that the deficit problems began when this balkanization problem began.

We have what economists call a common pool problem. The idea is if you have a lake and no one owns the fish in the lake you will have too much fishing. If someone owns the lake, we will have the appropriate amount. That is why they call it the common pool problem.

I have written an article with another economist testing these ideas on State budgets. We found, indeed, that in States with balkanized spending authority, spending grew faster.

Let me now turn to more current problems with the budget process as it exists today. The Nussle-Cardin bill, Senator Domenici's bill, and the other bills address some of them.

One of the problems is so-called baseline budgeting. Over the last 20 years politicians and budget professionals of all stripes have transformed budget terminology into Orwellian Doublespeak. Increases in spending are labeled cuts; taxes paid to the government reduce spending; and laws that continue a policy about to expire are said to cut spending.

The specific problems with this system are several. One is that some people think the baseline is so-called current services. Current services attempts to measure what today's government will cost tomorrow. The technicians quickly realized that they could not measure current services. Instead, the baseline measures something else. If you take the Medicare baseline, for example, historically over 50 percent, most has been increased services, not current.

Let me turn briefly to the BEA. We have had problems with the discretionary caps for a couple of reasons. One is that the caps do not measure all forms of budgetary resources. The major loophole here is user fees. User fees are exploded because they are free under the caps. Much of the regulatory state is funded now through user fees. For example, I worked in the Federal Trade Commission in the antitrust and consumer protection areas. The RTC and the antitrust division of the Department of Justice are funded now almost entirely by merger filing fees because the money is free under the caps.

Second, we have loopholes that increased the size of the caps. You have taken some steps to close them by eliminating the budget authority cushion and the inflation adjustment. There are still problems with emergencies, however. Senator Domenici's bill does a good job in addressing that problem.

Finally, in terms of PAYGO, there are a few issues. Allowing the on-budget surplus to be applied for tax cuts is a good idea. PAYGO only applies to so-called policy changes; this is too narrow. It should be applied, particularly, to technical changes as well.

Thank you.

[The prepared statement of Mr. Muris follows:]

PREPARED STATEMENT OF TIMOTHY J. MURIS

I. INTRODUCTION

Thank you for inviting me to discuss the Federal budget process. I begin by briefly describing some relevant budget history, particularly concerning the rise and fall of the recent large deficits. Because the budget process at the least exacerbated these problems, I then turn to flaws in the process, beginning with the balkanization of spending authority. Finally, I discuss other flaws in the current process, including those with the Budget Enforcement Act.

II. SOME BUDGET HISTORY

It might seem that in this new era of projected surpluses, the budget process is no longer an important concern. The reason for the rise and fall of large deficits, and the role of the budget process in those changes, should give us pause, however. Before the mid-1970s, large peacetime deficits were a temporary phenomenon. Thus, the large (by the standards of the time) deficits in 1959, 1968, and 1971–72, when the deficit exceeded two percent of GDP, quickly disappeared.[1] The budget was either in a small surplus (1960 and 1969) or a small deficit (1974).

Change occurred in the mid 1970s however. In the seven budgets from 1975 to 1981, the deficit was at least 2.6 percent of GDP in every year except 1979 (when it was 1.6 percent). Something had changed to prevent rapid elimination of large deficits. In the summer of 1981, however, better times appeared to be on the horizon. This, in July of 1981, CBO's Budget Baseline Projections for Fiscal Years 1982-1986 were released, and are reprinted in Table 1.

[1] Unless otherwise indicated, all years are fiscal.

TABLE 1—BASELINE BUDGET PROJECTIONS

Deficit (–) or Surplus
(by years)

	1982	1983	1984	1985	1986
Projections (In Billions of Dollars)	–30	18	76	138	209
As a Percent of GNP	–0.9	0.5	1.9	3.1	4.3

Source: CBO—July 1981

According to CBO, the budget would not only be balanced by 1983, it would thereafter run massive surpluses. These CBO estimates assumed both a strong economy and that the laws in place would not change. CBO was not alone in the former assumption, as the Administration and most economists in mid-1981 pronounced the economy as strong. As Table 2 summarizes, the consensus forecast, represented by the Blue Chip estimates, was optimistic.

TABLE 2—BLUE CHIP HEADLINES:

March-July 1981

Month	
March	"1981 Economic Consensus Inches Upward"
April	"1981 Full Year Consensus Forecast Continues to Pick-up Steam"
May	"1981 Consensus Forecast Tilts Up Again"
June	"The Recovery Continues"
July	"Economic Exuberance Envisioned For 1982"

We now know the folly of these projections. In July, 1981, the economy was about to enter the worst recession since the Great Depression of the 1930s. But this fact would not be known for months.[2] It was this unforeseen event that was the major cause of the large deficits that followed. Taxes were cut and defense spending increased. Both policies enjoyed wide support in 1981, however, although the particulars were hotly debated. Moreover, both contributed to important policy goals—economic growth and victory in the Cold War. Because the deficits of the preceding seven years had persisted, this unforeseen recession increased already substantial deficits. By the end of the Reagan years, the situation had returned to where it started, with the 1989 deficit (2.8 percent of GDP) virtually identical to the 1980 and 1981 deficits (2.7 and 2.6 percent of GDP, respectively).

Because the events of the 1990s are more recent and thus more familiar, I will not recount them in as much detail. A mild recession, the S&L bailout, and unforeseen technical changes in projected tax receipts and in Medicare and Medicaid spending increased deficits once again, to 4.7 percent of GDP by 1992. The resumption of the strong economy, a drop in S&L outlays, the end of the cold war, and the 1990 and 1993 tax increases reduced the deficit again. When the Republican control of the Congress began four years ago, however, CBO was projecting $200 billion deficits well into the future.[3] Even President Clinton's proposed budget for 1996, released in early 1995, projected deficits of this magnitude.

Then, the unforeseen intervened again. Deficits ended, defying the prognosticators, as revenue growth exploded well beyond expectations. Although higher than predicted economic growth contributed to the deficit fall as did a slowdown in the growth of mandatory spending, the bulk resulted from unanticipated other factors, such as the strong stock market. Without major legislative action, we moved from an era of deficits to one of projected surpluses.

What are we to make of this brief history? At least two lessons for current budgeting can be discerned. First, humility is in order. The most important events in the recent rise and fall of large deficits were all major surprises—the length and depth

[2] Thus, the record does not support the view that the Reagan Administration used a "rosy scenario" to hide the effects of its first budget. A comparison of the forecasts and assumptions used by the Administration finds that, in the aggregate, they did not differ dramatically from those of CBO or the private sector. What does stand out is the degree to which the administration, CBO, and private economists understated the chance and degree of a major recession. See Muris, *The Rise of Large Deficits: What Really Happened in 1981* (working paper available from the author).

[3] Because the economy would grow, deficits as a percent of GDP were projected to decline slowly.

of the early 1980s recession, the end of the cold war,[4] and the revenue surge of the late 1990s. Second, the budget process has lost its flexibility to respond quickly to unforeseen events, at least to unpleasant ones. Because we cannot control the unforeseeable, let me turn to problems that we can influence, in this case the current budget process.

III. THE BALKANIZATION OF LEGISLATIVE CONTROL[5]

During the period of large deficits, two views were most often advanced for failure to end them. The first was that the problem was one of political gridlock: the Republican (or Democrat) majority in Congress and the Democrat (or Republican) President could not agree on the mix of spending and tax policies necessary to solve the problem. The second view was that logrolling among legislators and rent seeking by special interests combined to produce spending higher than would exist in a world with lower information costs. For example, transportation projects benefit concentrated interests who care intensely about the project's benefits (reduced congestion and local jobs), while the costs are widely dispersed among taxpayers. Participating in the political process is not free, and opposing inefficient programs is simply not worth the time and effort for most individuals. For many, concerned about maintaining their jobs and supporting their families, collecting enough information to participate effectively in the political process is simply too difficult.

Although there is significant truth to these two views, they do not tell the whole story. Changes in the institutional structure within the Congress and in the budgetary framework in which Congress operates have combined to create the incentives and the means for the deficit to grow and become difficult to control. Regarding institutions, the balkanization of legislative control over spending has led to increases in spending. Moreover, the consolidation within committees over both revenue and spending authority for entitlement programs has fueled the growth of specific programs. Two key institutional changes made during the 1930s were critical in producing a bias in the process toward deficits. The first and most important was to transform jurisdiction over expenditures from a highly centralized committee structure to one in which various committees had spending authority.

A. The Dispersal of Spending Authority

For most of our nation's first century, a single committee in each house controlled almost all spending authority. This institutional arrangement persisted until 1877; in rule changes over the next nine years, the House stripped the Appropriations Committee of its authority over eight of the 14 appropriations bills. In each instance, appropriations authority was transferred to the legislative committee that had authorizing jurisdiction over the programs contained in the appropriations bill. By 1885, the House had transferred almost one-half of all non-mandatory appropriations to various legislative committees. In 1899, the Senate followed suit, dividing appropriations jurisdiction.

An upward surge in spending followed the dispersal of appropriations jurisdiction. During the seven years following the House decision, spending grew at a rate unprecedented in U.S. history. By 1893, program spending was 50 percent larger than it had been in 1886. Expenditures continued upward following the Senate's decision to divide appropriations jurisdiction, rising 45 percent between 1900 and 1916.

As a result of this rapid growth in spending, calls for budget process reform increased throughout the years preceding World War I. In October 1919, a select committee on the budget was established and recommended that the House consolidate the authority to report all appropriations in one committee. This recommendation was approved in 1920. In 1922, the Senate amended its rules to provide that all appropriations also be considered by one committee. Consequently, the U.S. budget was in surplus for the eleven year period 1920-1930, the longest streak of consecutive budget surpluses since spending authority was dispersed in the House.

Unfortunately, the process of spreading spending jurisdiction among committees began anew in 1932 when the Reconstruction Finance Corporation was created and financed outside normal appropriations channels. Decentralization accelerated during the next four decades, particularly between 1965 and 1975. By the mid 1970s, most substantive Congressional committees had authority to report legislation to the floor committing funds from the U.S. Treasury. In 1932, the Appropriations

[4] The contribution of lower defense outlays to deficit reduction has been dramatic, falling from 6.3 percent GDP in 1986 to 3.4 percent in 1997.

[5] This discussion draws heavily on the work of John F. Cogan, "The Dispersion of Spending Authority and Federal Budget Deficits, in *The Budget Puzzle: Understanding Federal Spending,* eds. Cogan, J.F., Muris, T.J. & Allen Schick (Palo Alto: Stanford University Press, 1994) and, for empirical support, on W. Mark Crain and Timothy J. Muris, "Legislative Organization of Fiscal Policy," 38 Journal of Law & Economics 311 (1995).

Committees controlled 89 percent of outlays through the annual Federal budget process. By 1992, fewer than 40 percent of Federal outlays resulted from decisions under the Appropriators' control.

This balkanization of spending authority creates a "common pool" problem. When no one owns a common resource, such as the fish in a lake, there is an incentive for too much fishing, depleting the population. With the budget, the common resource is general-fund revenue. As the Appropriations Committee controls less and less spending, and, correspondingly, other Congressional committees control more and more, no one committee has the incentive to restrain spending because the total level of spending is no longer the responsibility of any one committee. To the contrary, the resulting competition among committees to spend results in more spending than would otherwise occur, increasing deficit spending.

B. The Movement Towards Tax Financed Trust Funds

The creation of tax financed trust funds, most predominately Social Security and, later, Medicare Hospital Insurance, and the placement of jurisdiction over them in the tax-writing committees was the second institutional change contributing to the increase in general fund, and hence total, deficits.

Unlike general fund taxes, trust fund revenues are dedicated to specific programs. Moreover, general fund taxes are generally raised under the jurisdiction of a committee that does not control how the money is spent, unlike trust funds which are raised by the committee responsible for the specific fund. Since World War II, general fund revenues have decreased as a percentage of gross domestic product (GDP) with a corresponding increase in trust fund receipts. In the early 1950s, trust fund receipts amounted to little more than 1 percent of GDP, and general fund receipts equaled 16 percent of GDP. By the mid 1990s, trust fund receipts had increased to nearly 7 percent of GDP, while those of the general fund decreased to about 12 percent.[6] The rise in trust fund revenues seems to be crowding out general revenues.

Significantly, trust fund programs have not run deficits. Although spending for such programs has increased dramatically, trust fund taxes have increased to pay for that spending. Increased Federal deficits have thus occurred in areas in which the committee in charge of raising the taxes does not control the spending.

Important implications arise from the merging of the tax and spending authority. In particular, if one committee controls all taxes and benefits, we might expect that both will increase at a relatively higher rate. This conclusion follows because raising taxes, a politically painful step, is made less painful when those who raise the taxes directly obtain the benefit of the increase, through political support from the beneficiaries of the spending. All members of the legislature ultimately vote on taxes and spending, and thus share in the credit and blame. But because committee members exert more influence over the legislation than do noncommittee members, they can more easily tailor spending to increase the credit they receive.

C. Econometric Testing

Dr. Mark Crain of George Mason University and I studied the 50 State legislatures to test the thesis that the dispersal of spending authority among various committees results in significantly greater spending than when one committee controls spending. We also attempted to assess the significance of rules that combine or separate the committees overseeing revenue and spending decisions.

States that have only one committee with appropriations authority should have more control over spending than states with appropriations authority dispersed among committees. Consolidating control within one committee is an institutional means to overcome the common pool problem; it establishes a mechanism to contain spending pressures. By contrast, states that have balkanized spending authority should experience relatively higher spending, resulting from over-use of the common resource, the state's total revenue. Spending pressures are less controllable, absent an institutional mechanism to internalize spending accountability.

The results reveal that states with centralized appropriations authority have more control over spending than states with appropriations authority dispersed among several committees. As predicted, states that centralize spend less, on average, than states that decentralize spending authority. The difference is about 6 percent, holding other factors equal.[7]

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[6] The recent surge in revenues has increased general fund revenues to over 13 percent. Despite this surge, the non trust fund budget was still in deficit through 1998.

[7] We used regression analysis, a statistical technique designed to sort out the relative impact that several independent variables (such as centralized or decentralized committee structure) have on the dependent variable (here state expenditures per capita). Our results are significant at the .01 percent level.

The second aspect of our analysis tested the effect on state revenues of combining spending and taxing committees. When these functions are combined into one committee, the legislators who initiate revenue decisions have the most control over how those funds are spent, the taxers are the spenders. When the legislators controlling revenues are not the appropriators, the revenue committee members cannot capture as fully the political benefits of their labors, because spending programs are more likely to be designed to benefit the constituents of the appropriators. Thus, the tax committee is less likely to take the politically costly step of raising taxes if there is no offsetting benefit. We would expect that where taxing and spending authority are merged, taxes would be higher.

As predicted, states that merge spending and taxing authority into a single committee have higher revenues than those that separate these responsibilities among multiple committees. On average, states with merged committees have higher revenues, per capita, by 28 percent (again all other things equal).

IV. OTHER FLAWS IN THE BUDGET PROCESS

Recognizing that it was losing control over the budget, Congress created a new budget process in 1974. Rather than directly address the central problem of the balkanization of spending authority, Congress instead created a new process with only a weak capability to control budget totals or various budget programs. (Of course, returning more power to one committee was, and is, a politically difficult step.)

The new process does have some advantages over the period prior to 1974. In particular, the current process facilitates the development of large deficit reduction plans, such as the one Congress passed in 1995. Nevertheless, despite numerous such efforts, the deficit problem persisted for two decades. Besides the failure to rest real control in one committee, the new process has several flaws that exacerbate the deficit problem. The first involves the use, or more appropriately misuse, of baseline budgeting. Moreover, the much praised, most recent effort to "strengthen" the budget process, the Budget Enforcement Act (BEA) of 1990, is itself flawed.

A. Baseline Budgeting[8]

The budgetary framework in which Congress operates further biases policy in the direction of increased spending. Over the last twenty years, politicians and budget professionals—Democrats and Republicans, liberals and conservatives—have transformed budget terminology into Orwellian doublespeak. Increases in spending are labeled "cuts," taxes paid the government "reduce" spending, and laws that continue a policy about to expire are said to "cut" spending. Politicians can announce "cuts" that satisfy the public's general desire for reduced government spending and deficit control, while increasing spending for most programs, thus assuring themselves the support of special interest groups. Moreover, all these claims seem legitimate to many policy analysts and are too often accepted uncritically in the press.

1. *Origins of the Baseline*

Throughout most of U.S. history, the base used to compare alternative budget proposals was either the levels in the previous year's budget or those proposed by the President. Beginning with the Congressional Budget Act of 1974, more elaborate bases, called baselines, came into play. The Act required a baseline that continued current programs at "the same level as the current year without a change in policy." Such a baseline, it was felt, would be better for assessment of the fiscal impact of new proposals than the cruder measures previously used.

How to define the baseline was unclear, however, and the legislative history gave no precise guidance. Alternative definitions developed. One is to measure a constant level of government services to determine if a proposed change would increase or decrease government. This view uses as a baseline "current services." This baseline was intended to provide a policy-neutral method to project accurately what it would cost in the future to continue government as it exists today. Such a baseline, it was felt, would allow better assessment of the fiscal impact of new proposals than the cruder measures previously used.

Another definition focus on the words "without a change in policy." Under this approach, the baseline puts the government on "automatic pilot," determining how much it would cost to fund it in the future if no new legislation were passed. This view is called "current policy." A third alternative is called "current law." It differs from "current policy" in not including adjustments for inflation of discretionary spending. The current policy baseline has been the most frequently used measure for evaluating and reporting on budget proposals.

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[8] I discuss these issues at greater length in Timothy J. Muris, "The Uses and Abuses of Budget Baselines," in *The Budget Puzzle; Understanding Federal Spending,* eds. Cogan, J.F., Muris, T.J. & Allen Schick (Palo Alto: Stanford University Press, 1994).

2. *The Baseline Used Does Not, and Could Not, Measure Current Services*

Any baseline that projects the cost of the current level of all government activities into the future is an illusion. There are two major problems. First, events outside the Congressional spending process can change the funding level needed to hold government services constant. In other words, because of events outside its control, tomorrow's government can require more or less money than today's to provide the same services.

An example of an event exogenous to Congressional spending decisions is the accomplishment of a program's objectives. To hold government activity constant, sensitivity to the purposes of programs is required. If the original purpose of a program is achieved, yet spending continues for a new purpose, then government involvement in the economy has increased, not remained constant. For example, early in the Carter administration, Congress increased job-training funding to help alleviate the impact of a recession. Once the recession ended, continuing the program meant a change in its purpose, not a mere continuation of past efforts.

The second problem is that, even ignoring for such exogenous events, determining what amount will be necessary to fund government at a constant level is a complex matter. Simple formulas such as adjusting all discretionary programs for inflation can fail to measure accurately a constant level of government. Many variables can influence the calculus, and even when current services for a particular program are carefully calculated, experts may reasonably disagree over the correct estimate, thus undermining the supposed policy neutrality and objectivity of the current services baseline. For example, defense experts disagree over the level of funds needed to support any given force structure.

In any event, it is clear that the baseline used does not measure current services. Consider Medicare. CBO annually divides projected growth into three parts—increased caseload, price inflation, and greater use of services. The first two should be part of any effort to define true current services, i.e. how much it will cost tomorrow to fund today's program. But the final category—greater use of services—obviously represents more, not current, services. It is this last category that accounts for the bulk of the projected increase in Medicare spending—over 60 percent. Despite the fact that most of Medicare growth has been in excess of true current services, in the last decade public debate of the program has been dominated by discussion of "cuts."

3. *Impact of the Baseline*

Proponents of the baseline approach both argue its necessity and maintain that "objections [to the baseline system] have more to do with form than substance. . . . In the end, the budget totals are the same whichever approach is used." [9] Yet, any system that fundamentally alters how the public understands political action influences outcomes. Indeed, this pattern continued in the budget negotiations of 1990, 1993, 1995, and 1997. The rhetoric that dominated the process was of extreme pain, yet in 1990 Congress expanded Medicare and Medicaid significantly and continued the large increases in domestic discretionary spending that began in the last year of the Reagan administration. The reality of substantial new spending hardly matched the harsh rhetoric of severe restraint.

The rhetoric of the budget is biased toward increased spending. This claim can be reduced to a simple proposition: In dealing with the press and public, would an advocate for a program prefer that built-in increases above the previous year's level be characterized as "current," so that a restraint in growth leaving expenditures well above last year's would be presented as a "cut"? Or, would he or she prefer to have the debate be over the, for example, 10 percent increase assumed in the baseline, or a mere 8 percent increase over last year's spending levels? Particularly given the short time one often has to make a point—in many cases a 10 second "sound byte"—it would be a rare program advocate indeed who did not prefer the current policy language of "cut" to the alternative of defending an annual increase.

The defenders of the current Medicare and Medicaid programs provide many excellent examples. In 1995, for example, the Congress made a serious attempt to slow the growth of Medicare. Nevertheless, the annual growth rate was still projected to be in the six to seven percent range, depending upon which plan and whose estimates were used. Yet, because of the rhetoric of the baseline, most Americans thought that the Congress was actually attempting to reduce spending below the 1995 level.

Even when the proposed reform is more modest, critics of the reform use the baseline to devastating effect. On January 5, 1987, for instance, then President Reagan's

[9] U.S. Congress, Congressional Budget Office, *A Profile of the Congressional Budget Office,* at p. 32–33 (Sept. 1990).

budget for 1988 was released, and proposed to restrain the growth in Medicare from 63 percent (10 percent annually) in the administration's five year, current policy baseline to 46 percent (8 percent annually). The next day, the American Association of Retired Persons, the American Hospital Association, the American Medical Association, the American Nurses Association, and the Federation of American Health Systems ran the following full-page advertisement in the Washington Post.

The ad featured a large picture of an elderly woman and a young soldier embracing. The following appeared above the picture:

During the past five years,

more than $30 billion has been

cut from Medicare and Medicaid.

Now the administration

wants to cut $50 billion more.

Below the picture, the ad asked:

Isn't it time we started

defending the home front?

The body of the ad appears to compare yearly increases in defense spending with "cuts" in medical programs. Against the current policy baseline, Medicare and Medicaid had been cut. Yet, in absolute numbers, national defense outlays grew by 110 percent from 1980 to 1987 ($134 billion to $282 billion), while Medicare and Medicaid increased by 123 percent, from $48 billion to $107 billion. Thus, the medical programs actually grew by a greater percentage than defense. By claiming that defense was increasing while Medicare and Medicaid were being cut, however, the ad effectively used the current policy baseline to protect large growth in the medical programs.

The misleading use of "cut" is not the baseline system's only fault. The system has been manipulated, often producing "savings" dubious even under the baseline's peculiar logic. The manipulation of the baseline exacerbates this bias in favor of spending. When, as in the 1990 budget summit, $17 billion can be claimed as "cuts" simply by extending current law (and even allow for paying hospitals a higher percentage for capital than previously), when $9 billion can be claimed as savings over three years by limiting pay increases to 4 percent, when paying hospitals a higher update than they previously received is the largest "cut" in the 1987 budget summit category of entitlement "savings," and when money can simply be shifted to the next fiscal year to claim savings, a large package of "reductions" can be enacted with little or no impact on actual spending or the deficit. Even in the 1995 Reconciliation Act, which clearly is more ambitious than past efforts, almost one-third of the "savings" needed for Medicare can be obtained simply by extending expiring provisions and continuing current policies.

One of the biggest games is what I call "The Perpetual Motion Machine of Expiring Spending Cuts." A program is categorized as being "cut" if a policy designed to reduce costs relative to the previous policy is scheduled to expire and then extended. Because the previous, higher-cost, policy is "in" the baseline for the years after the lower cost policy expires, extending the "saver" once again "reduces" costs. Repeated extension of the Medicare Part B premium at twenty-five (25) percent of program costs is a notorious example.

A closely related practice occurs when programs are annually increased. By having the baseline assume an annual increase higher than the one usually paid, large savings can be claimed. Medicare again provides an example, with the long-standing practice of assuming a high payment increase to hospitals in the baseline and then increasing payments annually by less than the assumption. Beginning in 1984, Congress began requiring hospitals to be paid under the prospective payment system (PPS) based on the diagnosis of the patients' illness, not on the services they actually receive. Each year, the PPS payment scale is increased or "updated." This update, once set by the Secretary of Health and Human Services, is supposed to be based on several variables, including input inflation (called the "market basket"), hospital practice patterns, and hospital productivity.

Initially, both practice patters and productivity were used to keep the update below the market basket. But after a few years Congress mandated that the baseline assume an update at the full market basket. Congress then legislated the update below the market basket, claiming budget savings each time, although in fact the outcome was identical to the intent of the system.

These "games" have become an established part of our budget system. The budget process has focused too much on producing a respectable number of "cuts"; if the cuts merely manipulate the baseline, the political pain, which is greater when programs are actually cut than when they are increased, is lessened. More important, some of these cuts are then used to offset real spending increases or to protect other programs from real spending restraint. Congress frequently pays for new initiatives, which can dramatically increase outlays, by "cuts" from the baseline. In this way, "soft" savings offset "hard" increases.

Created to give policy makers a better handle on budgetary decisions, in practice the current policy baseline has given rise to a charade divorced from fiscal realities. It should be scrapped.

B. The Budget Enforcement Act

1. The Discretionary Caps [10]

Proponents of the BEA have claimed that the limits on discretionary spending have been a resounding success in achieving their goal of restraining budgetary growth. The BEA placed ceilings, or "caps," on the levels of annually appropriated spending, providing separate limits for domestic, defense, and international spending through fiscal 1993 and then one limit for major discretionary spending categories through 1997. Defense has a separate cap for 1998 and 1999, and there are separate caps for certain smaller areas, such as violent crime and transportation programs. When the BEA was enacted, these ceilings were proclaimed as restraining domestic discretionary spending to the level of inflation, and were said to be particularly tight after the agreement's first year. So successful are they perceived to be that Congress has continued them.

Reality, however, is far different. Properly measured, domestic discretionary, spending growth has exploded since 1988, two years prior to the enactment of the BEA, and 1998. Of course, defense spending has fallen since the end of the cold war, an event that can hardly be attributed to the BEA. Indeed, the effect of the 1990 budget deal was to increase short term defense spending above the level Congress was otherwise planning to appropriate.

a. *The Sources of Confusion*

There are two major reasons why reality and perceptions are so at odds. The first is that officially-reported budget authority and outlay figures do not measure the monetary size of programs accurately. The availability of means of financing programs other than direct appropriations, such as receipts from offsetting collections, obligation limitations, transfers from entitlement programs, and recoveries of prior year spending authority can all increase program size without being fully reflected in annual budget authority and outlay figures.

A truer picture emerges if "budgetary resources" are used to gauge the monetary size of programs. Budgetary resources for a program are the total amount of funds made available for obligation by that program in a given year. This measure includes all the available means of financing listed above. Once this measure is developed, a true picture of changes in domestic discretionary spending can be seen.

The second reason for the mismatch between reality and perception involves the caps themselves. Although the caps are a constraint, their impact on spending growth depends upon the level of the caps. In fact, for many reasons, particularly the level at which the caps were first set and adjustments that the 1990 law requires to be made to them, the caps have not restrained the growth of domestic discretionary spending.

The failure to measure spending accurately and to understand the nature of the caps helps explain the rhetoric and commentary that has occurred each year about the level of domestic discretionary spending. Throughout the year, from release of the President's Budget through enactment of the appropriations bills, the dominant theme is how tight the caps are. Some commentators, pointing to measures of spending such as budget authority and outlays which, although incomplete, can capture the direction of spending changes, note that while the caps may have been generous in the past, they are now tight. Yet, when that past was the present, i.e.,

[10] For more details on how to measure domestic discretionary spending, see John F. Cogan and Timothy J. Muris, "Changes in Discretionary Spending During the Reagan Years," in *The Budget Puzzle; Understanding Federal Spending,* eds. Cogan, J.F., Muris, T.J. & Allen Schick (Palo Alto: Stanford University Press, 1994).

when the Congress was working on the appropriations now recognized as allowing generous growth, the dominant theme—severe restraint—prevailed. Because the caps are both adjustable and are incomplete measures of spending, the seemingly tight caps are revealed, long after the fact, to be not so tight after all. By this time, however, Congress is working on new appropriations, again bemoaning how severely it is restricted.

b. *Accurately Measuring Program Size*

In measuring the size of discretionary programs, reported outlays are frequently equated with total spending. This is incorrect. Outlays are recorded net of certain payments made to the government from the public. Moreover, outlays are recorded only when a check is issued, not when the government assumes an obligation. Outlays for many programs, therefore, occur years after the programs have been funded.

Using appropriated budget authority to measure program size avoids the timing issue, but for some programs, this measure is irrelevant or only one method of financing. Particularly in the last 20 years, other methods have been used with increasing frequency to enable Congress to produce the appearance of budget cutting while the total amount available for spending has been maintained or increased.

One such method is requiring the public to pay a fee for a particular service. Such fees, called offsetting collections, are excluded from reported outlay and budget authority figures, but the agency providing the service is frequently allowed to use the fees to cover some or all of its costs. By increasing the fee and reducing the amount of appropriated budget authority, Congress can increase the amount of money the agency has to spend while reducing the agency's budget on the government's books. The use of such fees has become increasingly common, and are funding more and more of the regulatory state.[11]

Another type of budgetary resource that has not been included in calculations of budget authority are obligation limitations. Obligation limitations are used to control programs with trust or revolving funds. Highway programs, for example, are financed through a trust fund that receives money each year, mostly from taxes earmarked for that purpose. A limit on the amount in the fund that can be obligated for new spending, called an obligation limitation, controls program size. Obligation limitations thus serve the same purpose as appropriations do in other accounts, and are functionally equivalent to budget authority. Obligation limitations should be equated with budget authority to compute program size.

There are other methods Congress can use to conceal the true level of spending on discretionary programs. For example, Congress has transferred money from entitlement programs to discretionary programs. Congress can also "recover" expiring funds to spend on new programs. This is money, usually budget authority, that was previously appropriated and obligated. Unless it is "recovered," it will not be spent because it is no longer needed.

c. *Adjustments to the Caps*

As mentioned above, several adjustments to the caps have made them more generous than they originally appeared.

i. *Emergencies*

Under the budget rules, both as negotiated in the BEA and as reaffirmed in August 1993 and 1997, emergencies do not count against the caps. This loop-hole has added billions of dollars to discretionary spending.

Until Appropriations for 1998, there was much self-congratulatory praise in past Congresses and the Executive Branch about how this provision has been limited to "true" emergencies, such as hurricanes and earthquakes. This praise was misplaced. The emergency exception is designed for unforeseen events, on the theory that no rational budget process could account for them. It is true that the particular emergencies that occur are unforeseen. In a nation as large as ours, however, the fact that there will be emergencies (almost) annually is foreseeable. Whether it is hurricanes, earthquake, riots, major floods, drought, or military emergencies, it is predictable that somewhere, in some fashion, nature or other forces will produce the need for "emergency" spending.[12] Rather than treat emergencies as acts of God for which the budget process should be held unaccountable, these events are, in the aggregate, predictable. An amount, based on past experience, should be set aside with-

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[11] Indeed, as documented by CBO, offsetting collections grew rapidly even as deficits grew. Between 1980 and 1991, user charges classified as offsetting collections increased two and one-half times. User charges to fund regulatory agencies have increased even faster, by more than five times. See CBO, *The Growth of Federal User Charges* (August 1993).

[12] All years in this sentence are calendar years.

in the caps as a contingency to fund them. Moreover, these funds should be released only for true emergencies.[13] Senator Domenici's bill will provide a useful check on abuse in this area.

ii. *The Outlay Cushion*

The drafters of the BEA recognized that a budget authority cap does not control all forms of spending. Although retaining the traditional treatment of offsetting collections, and thus allowed increases in such fees to fund programs without counting against the ceilings, the BEA attempts to control obligation limitations through an outlay cap. The cap was apparently calculated to provide outlays sufficient to fund the programs at the modest levels of growth implied by the budget authority cap. The original Budget Enforcement Act allowed for an additional $6.5 billion in outlays, however, ostensibly as a cushion to provide for differences in estimating outlays between OMB and CBO.[14] Although some estimating differences still exist for discretionary programs, they have largely been eliminated as, beginning with the Gramm-Rudman-Hollings sequester report in 1986, the career staffs of both agencies have sought to narrow their differences.

The outlay cushion also serves another purpose, namely providing for additional growth in budgetary resources. The cushion provides some additional ability to increase obligation limitations and hence increase the total of budgetary resources. To the extent that the cushion is not needed for estimating differences or other reasons, every additional dollar of outlays available allows for the creation of greater than a dollar in budgetary resources if the programs funded produces outlays beyond the first year. In fact, the largest program funded via an obligation limitation, highways, produces less than 20 cents in first-year outlays for every dollar of new budgetary resource.

iii. *The Budget Authority Cushion*

Like outlays, the original BEA provided for a BA cushion. Two cap adjustments were allowed. The first adjusted the domestic cap for 1992 and 1993 by ".1 percent of the sum of the adjusted discretionary spending limits on new budget authority for all categories for fiscal years 1991, 1992, 1993 (cumulatively) . . . ."[15] The second adjustment is "the amount of new budget authority . . . [that] exceeds the discretionary spending limit . . . due to technical estimates made by the director of the Office of Management & Budget."[16] Several billion dollars were added to the caps through these allowance adjustments. (Outlays from the BA cushion count against the outlay cushion as they accrue.) Like the outlay cushion, these adjustments allowed for some increase in budgetary resources above the level implied in the original caps.

iv. *Inflation Updates*

The BEA originally provided for very modest growth in the domestic discretionary caps beyond 1991. The caps themselves were to be adjusted for a variety of factors, including inflation. If actual inflation was higher than the BEA anticipated, then the caps would increase; if inflation was lower, then the caps would decrease. In fact, actual inflation was below the BEA's projections, causing the caps to be lowered.

For two reasons, however, these adjustments did not fully remove the impact of the mistaken projections; thus, to the extent the caps were set to grow with inflation, the adjustments allowed the caps to exceed this goal. First, neither the caps

[13] OMB's definition—"sudden, urgent, unforeseen, and . . . not permanent"—is helpful here. See "Report on the Costs of Domestic and International Emergencies and on the Threats Posed by the Kuwaiti Oil Fires," as required by P.L. 102–55, Executive Office of the President, Office of Management and Budget (June 1991).

[14] For budgets since 1995, the special outlay allowance has been 0.5 percent of the total discretionary spending limit on outlays. Although not a stated reason, the cushion also allow for some change toward a mix of programs that produce outlays faster than the mix allowed in the original BEA numbers. Budgetary resources produce outlays at different rates. If Congress changes the mix of appropriated budgetary resources toward programs that produce outlays quickly, then more outlays will be produced in the first year from the same amount of budgetary resources.

[15] The quote is from § 251(b)(2)(E)(i) of Gramm-Rudman-Hollings, as amended by the BEA. This section was not included in the 1997 agreement.

[16] § 251(b)(2)(E)(iv). The quoted language covered 1994 and beyond, when there was only to be one discretionary cap. Para. 251(b)(2)(E)(iii) contains an identical provision for 1992 and 1993, except that it provides for a separate adjustment for each of the three individual caps. Both sections limited the total BA cap adjustment allowed. For example, for 1994 and beyond, the statute defined the limit as ".1 percent of the adjusted discretionary limit on new budget authority for that fiscal year." § 251(b)(2)(E)(iv). These sections were not included in the 1997 agreement.

for the year in which the mistake occurred nor those for the year following were adjusted. For example, actual inflation for 1991 was not known until after fiscal 1991 ended and most appropriations for fiscal 1992 had already occurred. Thus, only the caps for 1993 and beyond were lowered. Second, OMB read the BEA to force adjustments only for the nonpersonal accounts of discretionary spending. CBO and GAO argued that the adjustment should have applied to all accounts.[17] OMB's position thus caused smaller decreases than a full adjustment would have.

2. *PAYGO*

As part of the 1990 BEA, Pay-As-You-Go (PAYGO) rules were adopted to insure that Congressional action on revenue and entitlement spending did not increase the deficit. PAYGO requires that, at least as long as the on-budget category is in deficit, new legislation increasing outlays or reducing revenues be deficit neutral. Thus, such legislation must include offsetting revenue increases or expenditure decreases. If Congress does not act, a sequestration of certain entitlement programs will occur.

Although much praised, PAYGO has had a limited impact. PAYGO only applies to policy changes to existing laws. It does not reach mistakes because of inaccurate economic or technical estimates. Simply, PAYGO does not require cost "overruns" to be paid for if the excesses resulted from optimistic or mistaken projections.

Consider the problems government and private forecasters had in estimating the effects of President Reagan's first budget, discussed above. The estimates of the administration, CBO, and private forecasters all greatly understated the deficits that would arise from the first Reagan budget. Similarly, the economic forecast accompanying the 1990 budget deal was highly inaccurate.

Regarding technical re-estimates that increase the deficit, one of the best and most recent examples of this recurring problem can be found in the 1990 Budget Agreement. Congress and then President Bush claimed that they were "cutting" health programs by $35 billion over five years and "saving" $7.5 billion by extending the current policy regarding patient payment of premiums for Part B of Medicare. Since the 1990 agreement, the Congressional Budget Office (CBO) reestimated the cost of these programs through 1995 (the last year covered by the 1990 deal) numerous times. Although the number or size of the mistakes should be random, with as many overestimates as underestimates, the CBO has reported positive technical adjustments for Medicare and Medicaid that are many times the size of the claimed "cuts." In other words, the "progress" made in restraining growth was eliminated by an actuary's pen—yet no one required additional restraint because of mistakes in the previous estimates.

The fastest growing area of Medicare—post-acute care—provides specific examples of the problem. Consider home health care. In 1988, the estimate for total home health outlays in 1993 was $3.8 billion; the actual amount was $9.3 billion—two-and-a-half times the original estimate. Outlays for home health continue to explode after 1993. What happened? The primary reason behind the growth was an out-of-court settlement HCFA negotiated with provider and consumer groups after losing a court decision concerning limits on the amount of home health services Medicare allows. The settlement effectively eliminated the limits. HCFA's new policy was enacted independent of Congressional oversight and OMB review. Again, no penalty resulted.

Similar rapid growth has occurred in the skilled nursing facility benefit, expenditures for which grew even faster than for home health. A key event that helped trigger the unexpected increase was the passage of the Catastrophic Coverage Act in 1988. That law repealed the previous requirement for a three-day hospital stay before Medicare would pay for skilled nursing care in a nursing facility. In the short period before the Act was repealed, the program's costs nearly tripled. Despite the repeal, expenditures did not return to previous levels and have continued to rise rapidly.

The reasons for underestimation of the cost of certain government programs is not obvious. One major reason appears to be a consistent inability to foresee all of the myriad ways in which providers will use changes in the law to their advantage. Such lack of foresight is hardly surprising, given that there are thousands of highly intelligent people who specialize in obtaining additional money from the government, and that government estimators are largely unwilling to increase their estimate of specific program costs in the absence of hard evidence.

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[17] See, e.g., GAO, *Budget Issues: Compliance With the Budget Enforcement Act of 1990* (Nov. 1992). This latest BEA does not contain an inflation adjustment.

V. POSSIBLE SOLUTIONS

A. Eliminate, or at Least Reduce, Balkanization

As in the 1920s, we should centralize spending control within one committee. The historical record and our research indicate that reestablishing a single committee control over spending authority would have significant effects on decreasing both the level of spending and the prospect of deficits. This proposal may be difficult for the Congress to implement because it greatly concentrates power over "pocketbook" issues. However, recent voter disenchantment and the electoral upheaval in the 1990s should have put Congress on notice that control of key committees and the ability to direct favors to interest groups is no longer enough to protect incumbents from the voter's increasing desire to see progress on national problems.

If full consolidation is impossible, several steps in that direction should be easier to adopt. Entitlement status should be ended for all programs except earned entitlements, such as Social Security. A new appropriations subcommittee could be created, with jurisdiction over the former entitlements and membership consisting of the committees with previous jurisdiction. At a minimum, all programs should be reviewed periodically, with future spending ended without reauthorization.

Control could also be strengthened through a default rule that penalizes Congress and the Executive when they fail to achieve their goals. Although much maligned, Gramm-Rudman-Hollings (GRH) was better than what has replaced it. GRH was imperfect, in particular because the House in 1985 successfully removed numerous programs from its reach. But it did exert pressure to reduce the deficit, producing significant restraint, particularly in domestic discretionary programs in fiscal 1986 and 1988. GRH died because of the unique S&L crises, which exploded deficit projections, and because it was mistakenly ended as part of the 1990 budget deal. It should be renewed, with its coverage expanded to remedy the problems discussed above.[18] Moreover, we should require the use of multiple year targets, not just annual ones.

B. Scrap the Baseline System

By assuming a continually growing level of spending, baseline budgeting makes it harder to consider ending programs. Further, it fundamentally alters how the public understands the budget process. Allowing continuous and large increases in programs to be classified as "cuts," it creates the impression of action when nothing significant has occurred. The greatest check on state power can occur only when the public respects and can fathom what the government is doing. Baseline budgeting does not allow either. A device created to promote good government has become instead an exercise in gamesmanship to justify politically expedient results.[19]

Of course, the problems that led to the baseline system cannot be ignored. As now calculated, the current policy baseline does provide useful information for many programs, i.e., a knowledge of what spending would be in the absence of Congressional action. But for many other programs, notably discretionary ones, and those parts of mandatory programs that require frequent adjustments, there is no automatic pilot to measure. Rather than pretend to solve an insoluble problem, we should acknowledge that no good baseline is possible.

Although all programs should be measured against the base of the previous year's spending, for those programs that automatically increase the underlying reasons should be understood and evaluated. Breaking down the increases in programs into their components would improve Congressional and public understanding of the dynamics of government spending. For Medicare, for example, the past year's spending could be presented along with the projected increase in beneficiaries, changes caused by the aging of the population, general inflation, medical inflation, increased volume and intensity of use, and the costs of phasing in expansions and expiring provisions. The technical display should be as neutral as possible.

To be sure, such a procedure would be more complex than using the current policy baseline alone, but it would be a more accurate picture of reality. Medicare and many other government programs are not simple. Understanding and making intelligent decisions about those programs requires knowing why and how the program is growing. If the presentation of these programs oversimplifies a complex reality, it conceals important information and indirectly influences outcomes.

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[18] Another useful step would be to follow the BEA and first sequester the individual areas that cause the deficit targets to be breached.

[19] As an adjunct to eliminating the current policy baseline, we should modify the reconciliation process. As discussed above, numerous program expansions were funded in past reconciliations. Indeed, one of the few benefits of the 1990 budget deal was that it eliminated the need for reconciliation, at least for a few years. The expansions stopped for a while. They should be barred from future reconciliation bills.

No system of evaluating budget decisions will be entirely immune from distortion and gamesmanship, but abandoning the present system will make it easier to understand the impact of spending and tax decisions on the deficit. We should decrease the likelihood of claiming victories in the battle against deficits when they occur while steadily losing the war.

C. Modify The BEA

The BEA should be changed, especially if the more significant changes discussed above are not adopted.

1. *Discretionary Programs*

First, the concept of budgetary resources should be substituted for the BA and outlay caps currently used. At the least, offsetting receipts should no longer be "free" under the caps. Second, the loopholes that allow the caps to be increased should be curtailed, especially that for emergencies.

2. *Mandatory Programs*

PAYGO rules should be adjusted to require the inclusion of adjustments for technical and economic errors. Although correct forecasting is a difficult mix of science and art, not correcting for mistakes means that they are simply being ignored. Given the degree to which mistaken assumptions are common and increase deficits, the country cannot afford to pretend they do not exist. Future deficits will be controllable only when responsibility for them is accepted. Requiring that mistakes be addressed does only this.

Chairman THOMPSON. Thank you very much.

Dr. Ooms, would you come up, please?

STATEMENT OF VAN DOORN OOMS, SENIOR VICE PRESIDENT AND DIRECTOR OF RESEARCH, COMMITTEE FOR ECONOMIC DEVELOPMENT

Mr. OOMS. Thank you very much, Mr. Chairman, and Members of the Committee. My name is Van Doorn Ooms, and I am Senior Vice President and Director of Research at the Committee for Economic Development. CED is a nonprofit, nonpartisan and nonpolitical research and policy organization of about 200 business and education leaders.

The CED trustees have not addressed directly the budget process reforms before you, so that CED does not have an official policy position on them. I am, therefore, offering this testimony in a personal and professional capacity. However, I should say that the central issue that I wish to address is entirely consistent with CED's longstanding policy position that our long-term fiscal policy should ensure that national saving and investment are sufficient to provide for the Nation's economic future.

The issue that I address in these remarks, then, concerns the relationship between the budget rules governing changes in permanent fiscal legislation, the so-called PAYGO rules, and national saving, investment and economic growth. This issue is posed by the proposal in Title III of S. 93 which, as you know, would change the PAYGO rules.

The current rules prohibit changes in tax or entitlement legislation that increase the unified budget deficit or decrease the unified surplus, thereby requiring that any revenue reductions or increases in entitlement spending be paid for with similar offsetting changes that make the overall budget effect deficit- or surplus-neutral.

Title III would effectively modify these rules to allow reductions in revenues or increases in expenditures to be financed from surpluses in the non-Social Security budget.

This proposal would change the implicit fiscal policy goal that we have been pursuing from preservation of the unified budget surplus to preservation of the Social Security surplus. Balance in the non-Social Security budget then becomes the appropriate accounting framework.

In economic terms, this proposal says, in effect, that the future national saving and investment that will be created by the Social Security surplus will be sufficient; any additional prospective surpluses therefore may prudently and appropriately be used for private and public consumption. It is this presumption that I wish to discuss today.

The first question: Why did we eliminate the deficit? The Congress and five administrations have just successfully completed a painful 17-year effort to eliminate the Federal budget deficit. No one played a more important role in that historic process than the Senate Budget Committee and Chairman Domenici. As you gentlemen know better than anyone, this was not fun. Why did you do it?

Presumably, you did not eliminate the deficit simply because the ink on the accounting ledger was red rather than black. The Congress and the public recognized, at some level, the economic relationship between large, sustained deficits and the Nation's economic future.

They understood, in general terms, that such deficits would reduce national saving, crowd out capital formation, and reduce the growth of productivity, incomes and the living standards of our children. They realized that we could ill-afford this neglect of our economic future just when the imminent aging of America dramatically increases our need for growth.

My point here is simply that the economics of deficits and surpluses do not change when the ink on a Federal budget ledger, whether the unified budget or the non-Social Security budget, changes from red to black. Zero is a nice, round number, but it is not a magic number.

Within some reasonable range, the economic rationale for preserving modest surpluses is exactly the same as that for eliminating modest deficits. In other words, an accounting construct cannot answer the basic economic question of whether our public saving is sufficient to provide for our future. In order to answer that question, we need first to look at the trends in national saving and investment, which are shown in Figure 1 in my prepared testimony.

Our situation is not that of countries such as Japan or Italy, where private saving rates are very high. As Figure 1 shows, we have experienced a long, steady decline in private saving over the last four decades. As widely publicized, personal saving, the largest component of net private saving, actually fell to zero in late 1998.

Private saving is now extremely low, both by historical standards and a comparison with that in other countries. It is so low, as Figure 1 shows, that the extraordinary improvement in public saving in the last several years, by both the Federal and State and local governments, has still left the national saving rate at about 7.5 percent—far below the 9 to 11 percent range of the 1960's and 1970's. Put another way, we have recovered only about one-quarter of the collapse of our national saving between the 1960's and 1980's.

Well, how much saving do we really need? There are no hard-and-fast rules, but one can make informed judgments by looking at the requirements for the investment that are financed by that saving.

CED, in a study that took these investment needs into account, estimated in 1997 that, to increase capital formation sufficiently to provide for the future, we should raise net national saving to its pre-1980 average of roughly 10 percent of national income. While this goal is only a rough order of magnitude, it is consistent with both estimates of our capital formation needs and our historical experience.

The rest of my prepared testimony, Mr. Chairman, goes on to show what would happen to our potential national saving and, therefore, our potential for growth under two different policy scenarios—one in which we save the entire unified budget surplus, another in which we relax the PAYGO rules and save only the Social Security surplus.

The critical point is that, during the next decade, fully two-thirds of the increase in potential Federal saving will come from growth in the non-Social Security surplus, which increases by about 1.6 percentage points of GDP. Growth of the projected Social Security surplus, by comparison, will provide only about one-third of the total.

How much difference would this make to our national saving rate 10 years hence? Assuming that the combined saving rates of the private sector and of State and local governments remain near their current levels, saving the Social Security surplus would raise the national saving rate from 7.5 percent of national income in 1998 to about 7.9 percent—a significant and helpful increase, but one that would, nevertheless, leave us far short of the 9 to 11 percent average rates of the 1960's and 1970's.

Saving the entire unified surplus, however, would raise the national saving rate to about 9.5 percent of national income, roughly the average rate during the 1960's and 1970's. Saving the unified surplus would offset the decline in private saving since the 1960's with a roughly equivalent increase in government saving.

For these reasons, I believe that the prudent long-term fiscal policy in this era of low private saving is to save as much of the projected unified budget surplus as possible. To do this will require continued fiscal discipline. Removing the PAYGO protection of the non-Social Security surplus will make it far more likely that our national saving and investment will fall short of that needed to deal with the aging of America that lies just ahead.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Ooms follows:]

PREPARED STATEMENT OF VAN DOORN OOMS

Mr. Chairman and Members of the Committees: My name is Van Doorn Ooms and I am Senior Vice President and Director of Research at the Committee for Economic Development (CED). Before joining CED in 1991, I worked on budget issues for a number of years as the Chief Economist for the Senate Budget Committee, the Office of Management and Budget, and the House Budget Committee.

CED is a nonprofit, nonpartisan, and nonpolitical research and policy organization of over 200 business and education leaders. Its purpose, pursued throughout its 57 year history, is to propose policies to produce economic growth, higher living standards, and equal opportunity for all American citizens. In line with this concern about our national economic growth, CED produced a series of reports during the 1980's and 1990's recommending measures to raise national saving and investment by reducing the Federal budget deficit: *Strengthening the Federal Budget Process: A Requirement for Effective Fiscal Control* (1983); *Fighting Federal Deficits: The Time for Hard Choices* (1985); *The Toll of the Twin Deficits* (1987); *Battling America's Budget Deficits* (1989); *Restoring Prosperity: Budget Choices for Economic Growth* (1992); and *Growth With Opportunity* (1997).

CED's Trustees have not addressed directly the budget reform proposals before you today, so CED does not have an official policy position on them. My testimony is therefore offered in a personal, professional capacity. However, my views concerning the central issue I wish to address are entirely consistent with CED's longstanding policy position that our fiscal policy should ensure that national saving and investment are sufficient to provide for the Nation's economic future.

The issue I address in these prepared remarks concerns the relationship between the budget rules governing changes in "permanent" fiscal legislation—the so-called PAYGO rules—the national saving, investment, and economic growth. This issue is posed in Title III of S. 93, "The Budget Enforcement Act of 1999." Although I will confine my prepared testimony to this issue, I will be happy to address some of the other budget process issues before you in the question period.

The Central Issue

As you know, the current PAYGO rules effectively prohibit changes in tax or entitlement legislation that increase the unified budget deficit (or decrease the unified surplus), thereby requiring that any revenue reductions or entitlement spending increases be "paid for" with offsetting revenue increases or entitlement reductions that make the overall budget effect "deficit/surplus neutral." Title III of S. 93 would effectively modify these rules to allow reductions in revenues or increases in entitlement expenditures to be financed by "using" prospective surpluses in the "non-social security budget."

This proposal would change our implicit fiscal policy goal from preservation of the *unified* budget surplus to preservation of the *social security* surplus. Balance in the non-social security budget then becomes the relevant accounting framework. In economic terms, this proposal says, in effect: "The future national saving and investment that will be created by the *social security surplus* will be sufficient for the Nation's future needs. Any additional prospective surpluses therefore may prudently and appropriately be used for private and public consumption." It is this presumption that I wish to discuss today.

Economics and Accounting: Why Did We Eliminate the Deficit?

The Congress and five successive administrations have just successfully completed a painful 17 year bipartisan effort to eliminate the Federal budget deficit. No one played a more important role in that historic process than the Senate Budget Committee and Chairman Domenici. As you gentlemen know better than anyone, it wasn't fun. Why did you do it?

Presumably you did not eliminate the deficit simply because the ink on the accounting ledger was red rather than black, even though the debate occasionally seemed to frame the issue in that way. The Congress and the public recognized, at some level, the economic relationship between large, sustained deficits and the Nation's economic future. They understood in general terms that such deficits would reduce our national saving, crowd out private (and public) capital formation, and thereby reduce productivity, economic growth, and the living standards of our children. And they realized that we could ill-afford this neglect of our economic future just when the imminent "aging of America" dramatically increases our need for economic growth. They sensed that, without such growth, the provision for our booming elderly population could put unacceptable economic and political strains on the working population and our society.

My point here is simply that the economics of deficits and surpluses do not change when the ink on our Federal budget ledger—whether the unified budget or the non-social security budget—changes from red to black. Zero is a nice, round number, but it is not a magic number. Within some reasonable range, the economic rationale for preserving modest surpluses is exactly the same as that for eliminating modest deficits. In other words, an accounting construct cannot answer the economic question of whether our public saving is sufficient to provide for our future. To make that judgment, we must examine the outlook for our national saving and investment in light of the demands that will be placed on our economic capacity.

Trends in National Saving and Investment

The saving that finances the Nation's private and public investments flows from the saving decisions both of households and businesses in the private sector and of the Federal, State, and local governments. Our national saving is the aggregate of this private and public saving (or dissaving) and is the lifeblood of economic growth.

If our private saving rate were high, as it is for nations such as Japan and Italy, the additional public saving produced by protecting the unified budget surpluses might not be required to keep our total national saving at an adequate level. In these circumstances, the social security surpluses alone might well prove sufficient, and a modified PAYGO rule such as that of Title III would support adequate national saving and investment. Indeed, we might even find that such an arbitrary accounting rule was too restrictive, and that deficits on the non-social security budget were appropriate in some circumstances. The Japanese have recently experienced the problems posed by excessive fiscal restraint in an environment of very high private saving.

But this is not our situation. As Figure 1 shows, we have experienced a long, steady decline in the private saving rate over the last four decades. As widely publicized, personal saving, the largest component of net private saving, fell to zero in late 1998, perhaps in response to increases in financial wealth from the unusually strong stock market. Whatever the reason, U.S. private saving is now extremely low, both by historical standards and in comparison with that in other nations. It is so low that (as Figure 1 shows) the extraordinary improvement in public saving in the last several years by both the Federal and State and local governments has left our national saving rate at only 7½ percent—far below the 9–11 percent range of the 1960's and 1970's. Looking back over the past four decades, we have recovered only about one-quarter of the collapse of national saving that occurred between the 1960's and the 1980's.[1]

How Much National Saving Do We Need?

There are clearly no hard and fast rules that can tell us the "optimal" amount of saving for the Nation. Saving may be invested wisely or it may be squandered. New technology may make investments highly productive, or innovation may lag. Our education and training system may or may not deliver the skilled workers required to use new capital most productively. And, ultimately, a value judgment is required about how the living standards of our grandchildren should relate to our own.

Nevertheless, we can make a rough but informed judgment about our saving needs by considering the functions of the investment financed by that saving. We know that some investment will be required to replace capital that wears out or obsolesces, a requirement that rises rapidly when technology advances as swiftly as it has recently in information technology equipment. Additional capital will be needed just to equip additions to our labor force, but much more will be required for the "capital deepening" that provides more and better equipment for all workers—upon which higher productivity and living standards depend. Finally, our analysis must recognize that each future worker will have to produce for more retirees, in addition to his or her own family, which will require an extra margin of productivity gains.

Taking all these investment needs into account, CED estimated in 1997 that to provide for the Nation's future, we should raise net national saving to its pre-1980 average of roughly 10 percent of national income.[2] While this goal is only a rough order of magnitude, it is consistent with both estimates of the capital formation needed for the purposes just described and historical experience. During the 1960's and 1970's, labor productivity grew at an annual average rate of 2.6 percent, roughly twice the recent rate. Raising our saving and capital formation towards the rates that characterized that period of strong productivity growth seems a sensible, albeit ambitious, goal.

The Budget and Saving Outlooks and the PAYGO Rule

Several years ago the prospect of raising our national saving and investment rates back to the 9–11 percent range of the 1960's and 1970's appeared very remote. On the basis of then-current economic and budget projections, it would have required large expenditure reductions and/or tax increases that seemed to most observers po-

[1] Figure 1 is based upon the saving and investment data in the National Income and Product Accounts (NIPA). The NIPA budget data differ slightly from the unified budget data for conceptual and technical reasons, but these small differences do not affect the analysis here.

[2] Research and Policy Committee, CED, *Growth With Opportunity* (1997), p. 5.

litically unattainable and to some economically unwise. Indeed, CED's recommendations were criticized as being unrealistically ambitious on just these grounds.

Today the Federal budget outlook has dramatically improved, thanks to an extraordinarily long economic expansion, unexpectedly large government revenues, and continued fiscal discipline. Similarly, State and local budgets are in the best shape in many years. As a result, we now have an unprecedented opportunity to use the policy tool of public saving to enhance our national saving and investment, notwithstanding the shortfall in private saving.

While up-to-date official budget projections are not yet available, the staff of the Senate Budget Committee has made some preliminary, unofficial estimates. By these estimates, the unified budget surplus will increase by 2 percentage points of GDP during the coming decade—from slightly less than 1 percent of GDP in fiscal year 1998 to 2.9 percent of GDP in 2008. The largest part of this increase, however, occurs in the non-social security part of the budget. *By the end of the decade, just over two-thirds of the projected increase in saving within the Federal unified budget will come from growth in the non-social security surplus.*

Clearly it will make a large difference to our national saving rate—and therefore to our national investment and economic growth—whether we try to save the entire unified budget surplus over this period or only the social security surplus. Figure 2 illustrates the difference between these two policies in terms of the potential increase in national saving that each might produce by 2008.

Assuming that the combined saving rates of the private sector and of State and local governments remain near their current levels, saving the social security surplus would raise the national saving rate from its current 7.5 percent of national income to about 7.9 percent—a significant and helpful increase, but one that would nevertheless leave us far short of the 9–11 percent average rates in the 1960's and 1970's. *Saving the entire unified surplus, however, would raise the national saving rate to about 9.5 percent of national income, almost equal to the 9.8 percent average rate during the 1960's and 1970's. Saving the unified surplus would, in effect, offset our decline in private saving since the 1960's with a roughly equivalent increase in government saving.*[3]

These, of course, are not forecasts of actual outcomes but illustrations of the potential for using fiscal policy to raise our long-term saving and investment. There are many reasons for believing these projections too optimistic. Economically, they do not incorporate possible shocks to the economy and may make insufficient allowance for the budgetary effects of a possible recession. They are based upon projections of discretionary spending levels that may be too low to meet our national security or domestic needs. And they do not, of course, accommodate the inevitable strong political pressures to "use" surpluses for spending increases or tax cuts—pressures deriving from an accounting rather than economic perspective, as noted above. The 9.5 percent national saving rate consistent with saving the entire unified surplus is no doubt a "best case" scenario.

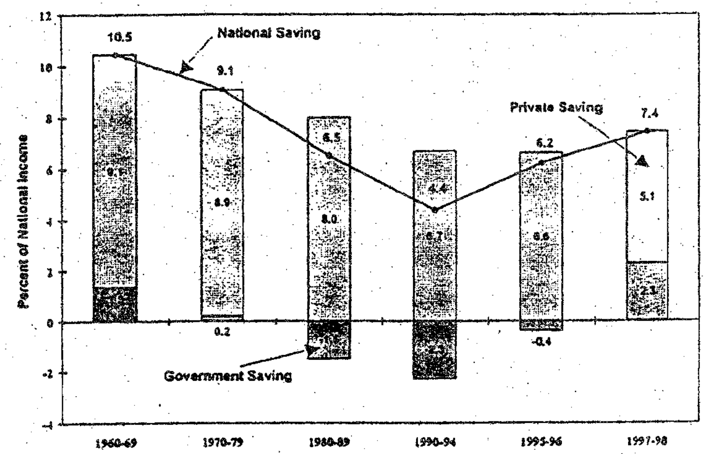
Added to these uncertainties and difficulties is the unpleasant fact that the budget outlook will deteriorate sharply after 2008, which just happens to be the year in which the first baby-boomers turn 62 and the retirement avalanche begins. As the budget pressures from public health and retirement programs intensify, the surpluses of both the social security and non-social security budgets will diminish rapidly. The fact that these pressures lie a decade and more in the future should not be reassuring. To raise incomes several decades hence, the saving and investment must begin today. The fruits of economic growth take time to ripen.

For all of these reasons, I believe that the prudent long-term fiscal policy in this new era of an aging population and low private saving is to save as much of the projected unified budget surplus as possible, consistent with our most urgent near-term budget needs. To do this will require political restraint and continued fiscal discipline. Removing the PAYGO protection of the non-social security surplus will make it far more likely that our national saving and investment will fall short of that needed to provide for the aging of America that lies just ahead.

[3] It can be argued that both these estimates of increased saving are somewhat too high, since expectations of higher public saving may reduce private saving. However, since private saving in 1998 was at historically low levels, with personal saving near zero, the argument that private saving will fall still further appears less than compelling.

Figure 1

Private, Government, and National Saving, 1960-1998*

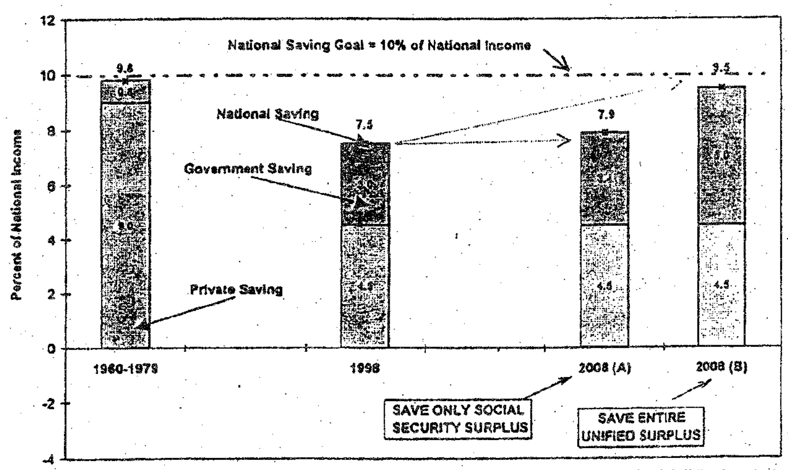


* National saving is the sum of gross private saving and gross government saving less the consumption of fixed capital. National income defined here as net national product. 1998 is first three quarters of the year at annual rates.

Committee for Economic Development January, 1999

Figure 2

Private, Government, and National Saving: Projections for 2008 Under Alternative Policies



*National saving is the sum of gross private saving and gross government saving less the consumption of fixed capital. National income is here defined as net national product. 1998 is first three quarters of the year at annual rates.

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Chairman DOMENICI [presiding]. Thank you very much. Martha, I want to join in wishing you a happy birthday.

Ms. PHILLIPS. Thank you very much.

Chairman DOMENICI. I have to admit, however, that I must leave for a caucus. Senator Lautenberg has graciously agreed to stay on for a while.

Could I just ask Mr. Muris one question, and then you can proceed.

Mr. Muris, you know you have gone through and looked at the effect or the ramifications, some unintended, some, if you have an exquisite mind like you do, you could predict some of those results. But I wonder, do you know if anybody has done a review of the impact on laws of the land that has come about because of omnibus reconciliation bills being almost the order of the day and almost doing one every year?

Does anybody have a trend as to what that has built into the law that was not there before, do you know?

Mr. MURIS. I do not think anyone has measured the aggregate impact. The Ways and Means Green Book covers many of the changes in Medicare, for example. The problem is the phenomenon of building in increases for the years beyond whatever the budget horizon is.

Chairman DOMENICI. That is being dealt a little bit short shrift by the new rules.

Mr. MURIS. Yes. The process has gotten better.

Chairman DOMENICI. It used to be bound by 1 year, and they would load the out years and use a reconciliation bill to do that.

Mr. MURIS. That is correct. Alan Schick says that any measure short of infinity is not long enough because people continue to back load expansions. Congressman Waxman, for example, was a genius at loading the increases beyond the budget horizon. We have gotten better at prevention for the reasons that you have stated.

Because we have not done long-term projections until just the last few years, no one has done the sort of study you desire. Unfortunately it would probably show that one of the impacts of many reconciliation bills, in the long term, has actually been to make things worse.

Chairman DOMENICI. And it seems to me that we have tried diligently to button that up with rules like the Byrd Rule, etc., that came late, and we had an era before that—it seemed like an era—when you could just load up the out years. Now it is a little more difficult, and you could put on a lot of superfluous legislation. We have kind of stopped that too.

But there are many unintended consequences from reconciliation. You would agree with that, right?

Mr. MURIS. Yes, sir.

Chairman DOMENICI. Martha, would you proceed.

STATEMENT OF MARTHA PHILLIPS, EXECUTIVE DIRECTOR, THE CONCORD COALITION

Ms. PHILLIPS. Thank you, Senator Domenici.

I am appearing here today on behalf of the Concord Coalition, which is a nationwide, grassroots, bipartisan organization. Its cochairs are two former Senators, Warren Rudman and Sam Nunn.

Concord's mission is to build a political climate that encourages political leaders, and even gives them permission to make the tough choices, such as those that you have made over the years, that are required to balance the budget, keep it balanced in the near term and, most importantly, keep it balanced when the Nation begins aging dramatically and Social Security and Medicare costs become a problem.

In that regard, I would like to associate myself with Van Ooms's comments about the importance of saving and point out that that was really the underlying rationale for the formation of the Concord Coalition in 1992.

We are heartened at the recent progress made in closing the gap between spending and revenue levels, though I have to say we were extremely dismayed at the glut of so-called emergency spending at the close of the 105th Congress. That dismal performance confirmed that the politics of surplus are, if anything, more difficult than the politics of deficit.

And from Concord's perspective, what was particularly dismaying was that, despite the newspaper headlines and political rhetoric, we did not have a budget surplus last year. You would read that there was a surplus of $70 billion, but in reality the on-budget accounts last year were $29 billion in deficit.

If Congressmen and Senators, Presidents, and newspaper people had been talking about a $29 billion deficit, I doubt that we would have seen quite so large a glut of emergency spending. And, therefore, one of the most important budget process reforms that you could help make is one that does not require any legislation at all. You could change the terms of the debate by changing your language; the language you use to describe our current status on the budget. If you could focus on the on-budget accounts, that would go a long way towards bringing some reality to the situation.

It would help remove from people's minds the notion that there is money to burn in Washington; that we have got a lot of spare change and that makes people ask, "Why can I not have my share of it?" People need to understand we are not there yet.

A number of specific legislated budget process reforms being reviewed here today would also be of help, and the Concord Coalition is very supportive of making these changes. We think a 2-year budget process is a great idea. For one thing, it would cut in half, literally in half, the opportunities for fiscal mischief.

Some previous opponents of 2-year budgeting suggested that if you had a budget only every 2 years you would give up half your opportunities to reduce the deficit. Now that the situation has changed, you give up half your opportunities to reduce the surplus, and we think that is a good idea.

A 2-year budget would be an extension on a continuum of a lengthening budget process. The budget cycle has already lengthened considerably. A few budget veterans, and I see several of them in the room, remember that the first version of the Congressional budget process began with two annual budget resolutions, and that was not enough. Generally, the second resolution, after it was passed, was then subsequently revised.

In 1976, I guess Congress simply could not get enough of a good thing. There were three Congressional budget resolutions that year, and then they revised the third one. So there were actually four bites out of the apple or, perhaps, maybe they just could not get it right.

In any event, by the early 1980's, this idea of two and three Congressional budget resolutions every year had gotten to be quite a rat race, and the second budget resolution became a pro forma affair. They essentially deemed that they had passed the second resolution. Gramm-Rudman legislation dropped the requirement for a second budget resolution entirely.

Last year marked the first time Congress failed to pass any budget resolution, and some cynics commented that maybe that was our first experience with a 2-year budget cycle. However, it certainly was an unsatisfactory experience, and the 1998 end game demonstrated the problems of driving a tough bargain when Congress does not have the budget enforcement backing of a budget resolution.

The Concord Coalition strongly supports anything you can do to tighten emergency spending procedures. Requiring a 60-vote point of order is a good idea to encourage emergency designation only for spending that is truly necessary, sudden, urgent, unforeseen, and temporary.

We also think it is worth exploring the possibility of reserving an adequate amount of room within the discretionary caps for the seemingly inevitable floods, droughts, hurricanes, tornadoes, earthquakes, fires and what have you. It is rare that a year goes by without at least one of these unfortunate disasters.

If you go to a 2-year budget cycle, you can be pretty sure that sometime over 2 years you are going to be visited by one of these catastrophes. It is foolish to allocate a full 2 years' worth of discretionary spending without making some reasonable room within that allocation for emergency spending. We would not want to set up anything like a trust fund, where interest was coming into it. As was commented before, if you put the money out there, it will be spent, and you do want to reserve it for true emergencies.

The Concord Coalition does not oppose tax cuts. What we oppose are deficit-financed tax cuts, particularly during periods of peacetime prosperity. There simply is no excuse for doing that. And, again, as Van Ooms pointed out, our real problem is finding a way to increase net national savings.

However, we do think that, now that we seem to be entering a new era of on-budget surplus, it is a legitimate debate as to whether on-budget surpluses should be used for tax cuts, spending increases—if you consider spending increases, we would urge they be for things, if you can manage it, that would increase economic growth—or for debt reduction.

The Concord Coalition very much prefers the last option. We think debt reduction is the best thing to do. However, it is a legitimate debate, and if you want to amend PAYGO scorecard to make those adjustments, we can appreciate why you would do that.

We have two cautions, however. First, tax cuts tend to be forever, and the surpluses may not last as long as we hope or as long as our official projections indicate.

Second, we have to remember that the baby boomers are poised to begin retiring in about a decade. People are living longer than ever, and our Nation is aging rapidly. It is going to be a dramatic aging process. The number of seniors will double. We have huge unfunded future liabilities in the Medicare program. We have not yet dealt with Social Security.

And on-budget surpluses could help our Nation prepare for the transition as we deal with these problems. It could help us strengthen the economy so that we can afford to have such a large percentage of our population in retirement. So we would move very cautiously on the idea of using the entire on-budget surplus for tax cuts.

Concord is concerned about another PAYGO issue that is not on your list. We favor retaining the current discretionary caps, though we have been fairly skeptical of the ability of Congress to do it. In fact, when the 1997 budget agreement was passed, Concord said, “Hip, hip,” but no “Hoorah” because we were skeptical that you would be able to hold to the caps.

And, in fact, because of the emergency spending last fall, you are going to need to make close to $30 billion of reductions in order to adhere to the caps for the current year that we are in, the next-year budget year. And by 2002, even with today’s modest inflation rates, the caps require a 9-percent real reduction. You might not be able to do that. If you give way on those caps, we would urge that it be offset on the PAYGO scorecard because that discretionary spending stream is just as likely to be permanent as any entitlement increase that you would enact.

Thank you.

[The prepared statement of Ms. Phillips follows:]

PREPARED STATEMENT OF MARTHA PHILLIPS

I am appearing today on behalf of the Concord Coalition, a nationwide, grassroots, bipartisan organization dedicated to strengthening the nation’s long term economic prospects through prudent fiscal policy.

Concord’s co-chairs are two former senators, Warren Rudman (R–NH) and Sam Nunn (D–GA). They, along with our approximately 200,000 members, who hail from every state, have worked hard in recent years to help build a political climate that permits and encourages elected officials to make the tough choices required to balance the Federal budget and keep it balanced during times of peacetime prosperity.

Although Concord is heartened to see that, at least on a unified basis, the budget has achieved balance, our members remain concerned that the rhetoric of the press, politicians and the public focus on this surplus even though on-budget accounts remain in deficit. In fiscal year 1998, while newspaper headlines were trumpeting a $70 billion surplus, on-budget accounts were $29 billion in deficit. Only the $99 billion Social Security surplus brought the unified total up to $70 billion surplus.

Concord is also eager to go beyond merely achieving short-term on-budget balance. We advocate using the current economic, fiscal, demographic and political windows of opportunity to address the long-term Social Security and Medicare deficits that will accompany the aging of our nation’s population. These deficits threaten to undo the hard work and fiscal discipline of recent years and undermine our potential for future economic growth.

Given this mission and set of concerns, it should be readily apparent why the Concord Coalition is interested in establishing tight fiscal discipline procedures and observing them scrupulously. That is why we are *pleased to endorse the proposed set of budget process changes that are the subject of today’s hearing.*

As the closing weeks of the 105th Congress revealed, the politics of surplus are as tough, and perhaps even tougher, than politics of deficit. Attached to my statement is Concord’s Quarterly Report Deficit Report, which reviews this dismal history and awards Washington policymakers a near-failing grade.

Rather than commenting on the particular details and small print of specific legislative proposals, I will address the generic concepts that have been suggested.

Biennial Budgeting

The Concord Coalition is on record in support of moving to a two-year budget process. Putting the President’s Budget, the Congressional Budget Resolution, appropriations and oversight on a 2-year cycle that coincides with sessions of Congress makes excellent sense for a number of reasons.

The most important, from Concord's perspective, is that it would lessen the opportunities for fiscal irresponsibility. Some traditional opponents of biennial budgeting have contended that by moving from an annual to a biennial process, policy makers would relinquish half their opportunities to enact reconciliation bills and reduce the deficit. Now that we appear to be entering a period of budget surpluses, the reverse argument can be made in support of biennial budgeting: with a two-year process, policy makers will have only half as many opportunities to reduce the surplus. That's desirable.

With budget deficits nearly erased, there is no longer the need for an annual reconciliation bill, or for a Congressional Budget Resolution requiring it.

Congress functions in a biennial mode, and conforming the budget cycle to the Congressional rhythm is a sensible change that could replace wheel spinning with productive work, including more attention to oversight. Indeed, a two-year cycle would improve the efficiency and efficacy of both the Executive and Legislative Branches. Too much time is consumed needlessly in repetitious budget preparation, justification, and appropriation. This energy could be more usefully put to work on oversight and improving government performance. Far too much of the Legislative Branch's time and energy goes into repetitiously renewing or disputing "decisions" that often have been made "final" only a few months earlier.

Moving to a biennial budgeting process would constitute a continuation of the gradual lengthening of the budget cycle that has occurred since adoption of the Congressional budget process in 1974. When the Congressional budget process was launched in calendar 1975, the process began with two budget resolutions for fiscal 1976. By the next cycle, there were three budget resolutions for fiscal year 1977, enacted on April 29, 1976, September 9, 1976, and March 2, 1977. For the remainder of the first decade of the Congressional budget process, there were two budget resolutions annually, plus a formal revision of the second budget resolution in the following year. By 1982, the second budget resolution was settling into a pro forma exercise that essentially reaffirmed the figures contained in the first resolution. However, not until Gramm-Rudman was enacted in 1985 was the requirement for a second budget resolution abolished.

In some ways 1998 marked a new, though unintentional, point on this continuum when Congress was unable to agree on any budget resolution at all. Without the discipline provided by a budget resolution, the end-game antics during the pre-election closing weeks of the 105th Congress became needlessly expensive. Certainly it is possible to improve on this first unsatisfactory experience with a two-year budget cycle.

Formally converting the annual appropriations process to a two-year cycle would be a significant change, but perhaps not as large as it might seem. Some two-thirds of the budget accounts on the annual appropriations cycle already provide multiple-year or no-year funding. Advance appropriations are already made for programs, such as education, where there is a clear need to have funds immediately available at the beginning of the fiscal year. The Department of Defense already submits a two-year budget, though Congress has yet to authorize or appropriate for defense on a two-year basis.

Would the priorities established in the first year will hold up for two years? And if adjustments were required, how would Congress respond? On the first question, there is little reason why priorities established at the beginning of each two-year Congress ought not provide a workable guide for a two-year period, particularly during the current era of extraordinary peacetime prosperity. Should there be substantial and unanticipated changes in the economy, alarming international developments or extraordinarily severe natural disasters, Congress and the White House would unquestionably respond. The machinery for urgent supplementals and rescissions is well developed. The chief challenge therefore would be not whether there could be a timely and appropriate response to new priorities during the two-year period, but rather how to hold to a minimum the number of such extraordinary responses and their dollar level. If urgent supplementals are permitted to become the commonplace rule rather than the rare exception, the rationale for moving to a two-year budgeting cycle will have been defeated. One potential partial solution would be to withhold allocation to the Appropriations Committee of a small portion of the two-year total until the second year. This specific "pot" of set-aside funds could function as a safety valve to accommodate new, unexpected needs that, while useful and beneficial, do not constitute true emergencies.

Emergency Procedures

The Concord Coalition supports requiring a 60-vote point of order in the Senate on any emergency spending bill and on any non-emergency provision in an emergency supplemental appropriations bill. Concord also supports the proposal that the President's request and the Congressional committee's report analyze whether a proposed emergency expenditure or tax change meets five criteria:

Necessary expenditure—an essential or vital expenditure, not one that is merely useful or beneficial;
Sudden—quickly coming into being, not building up over time;
Urgent—a pressing and compelling need requiring immediate action;
Unforeseen—not predictable or anticipated as a coming need; and
Not permanent—the need is temporary.

These criteria were developed by the Office of Management and Budget in 1991 to provide guidance in determining what constitutes an emergency expenditure. They are still relevant today. For the most part, they did not govern the emergency spending provided at the close of the 105th Congress.

Making some sort of reasonable exception to tight budget discipline for compelling emergencies is a necessary safety valve. The problem is keeping emergencies to a minimum. If our government moves to a two-year budget cycle, the likelihood will increase that necessary, sudden, urgent, unforeseen and temporary needs will arise after the budget plan has been adopted. It is even more likely that merely desirable, helpful, useful or popular needs for additional spending will increase, particularly as election day nears. The record of the 105th Congress was dismal in this regard. A legitimate safety valve in the budget process was widened into a huge loophole through which Congress and the White House jointly enabled each other to permit more than $20 billion to leak away.

Should the five criteria constitute a reporting requirement or provide a point of order? Concord leans toward requiring a point of order. The risk in the case of a reporting requirement is that, like so many other requirements, compliance with them could become routine boiler plate. Report after report could attest that a proposed expenditure met all the requirements even though common sense would dispute this. A point of order would be a stiffer requirement. However, it would require the parliamentarian to make the determination whether the proposed expenditure indeed met the five criteria. In some instances this would be a judgment call, and in borderline cases, Congress might disagree with the parliamentarian's ruling, in which case the ruling of the chair could be appealed. But what's important is that the point of order would establish a higher hurdle than only the reporting requirement.

Concord favors enacting appropriations in the regular appropriations bills for the principal emergency relief programs at their long-term average levels. Natural disasters—floods, droughts, fires, hurricanes, tornadoes, and earthquakes—occur with dismaying regularity. Expenditures in response to these occurrences tend to fall within a predictable range. To budget in anticipation that there will be no disasters is disingenuous.

Others have suggested that a reserve fund be set aside within the annual discretionary caps at amounts equal to the five-year rolling average. This would provide budgetary resources within the discretionary caps in advance of emergency needs and would eliminate the need for most supplemental emergency appropriations. At issue would be how funds would be released from the reserve, under what circumstances, and what to do with unused funds at the end of the fiscal year. If such an advance funding reserve were created, Concord would oppose establishing it as a trust fund or investing reserves in government interest-bearing debt. Instead, we would prefer to see it function as a score-keeping entry in which credit for unused funds could be rolled into future years for possible appropriations should the need arise.

Pay-As-You-Go Changes Regarding Tax Cuts:

The Concord Coalition does not oppose permitting on-budget surpluses to be used for tax cuts. Concord favors balancing the on-budget accounts. It is opposed, therefore, to deficit-financed tax cuts. But if there are truly on-budget surpluses, then Concord believes it is entirely legitimate to debate how best to allocate them among the three possible uses: tax cuts, spending increases, debt reduction, or some combination. Concord's preference among these options would be to reduce the debt, but other allocations of on-budget surplus funds are also legitimate, particularly if they devote the resources to increasing national savings or otherwise investing in future economic growth.

If PAYGO rules are amended to permit on-budget surpluses to be used for tax cuts, however, we would urge Congress and the White House to keep in mind that the surpluses are not likely to be permanent unless steps are taken to address the long term deficits in entitlement programs for the elderly, and in particular, the Medicare program. Tax cuts usually last forever, and permanently diverting a portion of the surplus to tax cuts means that it will no longer be available to address the fiscal problems that will accompany the aging of our population.

Pay-As-You-Go and Discretionary Caps:

Concord suggests an additional PAYGO change. Even though we support retaining the discretionary caps at their established levels, it is becoming obvious that great pressure is building to increase them to accommodate both defense and nondefense spending. Back-loaded appropriations in last year's omnibus legislation means that almost $30 billion in reductions from current levels will be required this year in order to comply with the caps. And despite modest current inflation rates, real reductions of 9 percent will be required in discretionary spending between now and 2002.

It's unlikely that these reductions will be made. Indeed, when the 1997 budget agreement was adopted, Concord cheered, "Hip, hip but no hurrah" because we did not believe at the time that the caps were sustainable.

In the process of revising the caps to higher levels, Concord would urge that the increases be offset on the PAYGO scorecard. PAYGO was established to deal with the permanent aspects of the budget: taxes and entitlements. It has become apparent that the caps have also become a permanent part of the budget process. It is extremely unlikely that discretionary spending will be reduced; if the caps change, the direction will almost certainly be upwards. Therefore we believe that it would be good for long-term budget discipline to require that any increases in the caps be scored under PAYGO.

We would not favor the reverse. One-time reductions in appropriations to bring totals temporarily beneath the allowable caps are extremely unlikely to be permanent. Therefore we would oppose permitting discretionary cuts to offset tax cuts on the PAYGO scorecard. Tax cuts are forever, but discretionary cuts could disappear with the next supplemental.

Automatic Continuing Resolution

An automatic CR is another budget process change that Concord has long favored. We support making a CR automatic at the lower of the President's requested level or the previous year's appropriated level.

While this change would undoubtedly alter the leverage points during the endgame period at the close of a session of Congress, this change would be for the good. The leverage has tended to favor agreements to increase spending rather than to force tough bargaining to trade increases and reductions within the agreed-upon limits.

Attachment: Concord's Quarterly Deficit Report follows:

Concord's Quarterly DEFICIT REPORT

VOL. 3, NO. 2 THE CONCORD COALITION DECEMBER 1998

■1998 Budget Results: A Near-Failing Grade

It's official: final Treasury figures for Fiscal Year 1998 (which ended September 30) show that *last year's Federal government budget deficit was a remarkably low $29 billion.* Nevertheless, most news reports carried headlines trumpeting a $70 billion surplus.

The discrepancy involves much more than a mere technical bookkeeping technicality. Only by including the *off-budget* $99 billion surplus from Social Security and the Postal Service did the fiscal year 1998 ledger show a surplus. Counting this way, the government took in $70 billion more than it spent for the fiscal year, the first such surplus since 1969.

Even though this net $70 billion budget surplus marks an unquestionably important milestone, it resulted less from policies enacted during 1998 than from the combination of a robust economy and the budget agreements of 1990 and 1993. Indeed, just when the strong economy erased the red ink from the total budget for the first time in three decades, Congress and the White House winked at budget discipline and passed laws *that would reduce that surplus by $65 billion over the next decade.*

The illusion of budget surplus contributed to this collapse of fiscal resolve. Despite a deficit last year of $29 billion in the accounts that make up the government's official budget—and even larger deficits expected in the current year—political rhetoric fixated on a forecast of more than a trillion and a half dollars of "surplus" in the coming decade. Convincing themselves that the surplus illusion was real—and available—elected leaders began claiming large chunks of it for tax cuts and spending initiatives.

Social Security has been taken off budget by three different laws enacted in 1983, 1985, and 1990 to prevent precisely this behavior. Off-budget status was intended to reserve program surpluses to help pre-fund the boomers' retirement by protecting them from being siphoned off for routine spending.

But in 1998, the first year in which the official off-budget status of Social Security became important, Washington turned on a dime and shifted from the politics of deficit to the politics of surplus. The rhetoric of surplus guided political actions. The results for federal fiscal policy in the short, medium and long term were not auspicious.

CONCORD'S INDICATORS

Our National Debt at end of Fiscal Year 1998: $5.526 trillion
Our National Debt at end of Fiscal Year 1997: $5.413 trillion
Increase in National Debt during Fiscal Year 1998: $113 billion
Family of Four Share of 1998 Debt: $81,540
Foreign Holdings as Percentage of Publicly Held Federal Debt, Average 1980-94: 16.5%
Foreign Holdings in 1997: 34%
Interest on Federal Debt in 1998, including Debt Held by Social Security and Other Trust Funds: $364 billion
Number of Federal Agencies in 1998 with Budgets Larger than Interest: 1
Total 1998 Spending by Social Security Administration: $408 billion
Year Social Security Benefits Expected to Exceed Social Security Revenues Excluding Interest: 2013
Year Medicare Part A Hospital Insurance Benefits Began to Exceed Part A Income Excluding Interest: 1991
Number of 65-year-old Americans in 1998: 1.9 million
Number of 65-year-old Americans Expected in 2027: 4.2 million
Social Security Intermediate Projections for the Year U.S. Male/Female Life Expectancy (at Birth) Reaches Japan's rate today: 2036/2057
First Year in which Majority in U.S. House of Representatives will be Baby Boomers: 1999
Baby Boom's Highest Number of Children 18 and Under (in 1966): 69,900,000
Boomer Kids as Percentage of Total Population in 1966: 36%
"Millennial" Generation's Current Number of Children 18 and Under (in 1998): 70,200,000
Millennial Kids as Percentage of Total Population in 1998: 26%

The Concord Coalition • 1019 19th St. NW, Suite 810, Washington DC 20036 • phone 202-467-6222 • fax 202-467-6333
World Wide Web: http://concordcoalition.org • E-mail: concord@concordcoalition.org
Executive Director: Martha Phillips • Policy Director: Robert L. Bixby

Concord Grades 1998 Budget Policy

The Concord Coalition has graded Washington's performance on fiscal policy in three key time frames. Each time frame has a rating scale of A to F, with A signifying great improvement, and F signifying great harm. Superior performance to improve economic performance by balancing the budget, keeping it balanced, and addressing long-term problems posed by the retirement of the baby boom generation will rate highly in all three time frames.

GRADING THE OPTIONS	GRADE
Short-term: Actions that reduce the annual on-budget deficit over the next one or two years.	D-
Medium-term: Enacting credible measures that will balance the on-budget accounts over the next five years.	D
Long-term: Reforming entitlement programs in order to keep the budget balanced after 2003.	C
Overall: Progress toward short, medium, and long-term budget reform and balance.	D

■SHORT-TERM GRADE: D-

Appropriations bills enacted in 1998 increased the short term budget deficit. The tab just for 1999 is expected to be $17 billion, and funding gimmicks in the bills will make it extremely difficult, perhaps impossible, not to increase the deficit again next year.

Since the late 1980's, ceilings, or caps, on amounts that could be appropriated each year for discretionary spending have been a major tool of budget discipline. Appropriations in excess of these caps, except for legally designated emergencies, triggers a sequester (automatic across-the-board reduction) to scale spending back to allowed levels.

In the 1997 budget agreement, in order to accommodate a tax cut while reducing the deficit, Congress and the President agreed to tight discretionary caps for 1998-2002.

What happened in 1998 was that the emergency designation became a major loophole that Congress and the White House used to exceed the tight discretionary caps. Instead of making hard choices to set priorities within the spending that was allowed, Congress and the Administration greedily divvied it up for pork barrel projects and then cheerfully pushed billions more through the "emergency" spending loophole.

When the dust cleared after the 1998 legislative session, the final bill for "emergency" spending in the omnibus appropriations bill drove outlays $13.2 billion above and beyond the stated discretionary caps in 1999, plus another $8 billion in later years. After adjusting the caps to reflect the designated "emergencies" and new transportation spending, the Congressional Budget Office calculated that 1999 discretionary outlays still exceeded adjusted caps by $2.8 billion. This would require an across-the-board reduction of approximately 1 percent in the defense category and about 0.5 percent in the non-defense category. However, CBO's estimates are merely advisory; the Executive Branch Office of Management and Budget has the final say in how sequestration is applied. The emergency spending resulted from political agreements between the White House and Congress. OMB has not applied a sequester to reduce the overage.

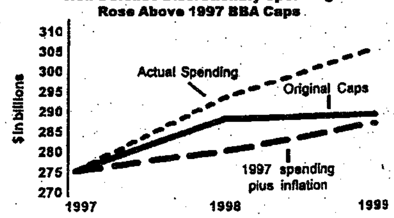
Officially designated budget emergencies should be limited to unexpected, one-time, and troublesome occurrences. Few of this year's "emergencies" fit that definition. Fixing the government's computers for the year 2000 is important but the problem was scarcely unexpected. The U.S. has assumed a peacekeeping responsibility in Bosnia, but it appears to be an on-going rather than one-time situation. Natural disasters occurred this year, as they almost always do, but disaster spending was designated an emergency even though it did not exceed customary levels.

Gimmicks used to push spending above the caps involved several legal but creative techniques. Billions of dollars were "advance appropriated" and more billions were withheld from obligation until so late in 1999 that the checks will come due in 2000 rather than 1999. This will add greatly to the difficulty of adhering to discretionary caps next year.

Rosy predictions of declining deficits and future surpluses assume firm adherence to the discretionary budget caps, and count on lower interest costs as a result of having to borrow less because of effect of the caps. This year's flagrant overspending signals a major collapse in fiscal discipline that calls into question whether discretionary caps can be expected to hold in coming years, especially as pressure mounts for increased defense spending.

Debating a mega-tax cut preoccupied most of the 1998 legislative session. Had such a tax cut been enacted without the

Non-Defense Discretionary Spending Rose Above 1997 BBA Caps



offsets required under budget rules, Washington would have merited a failing grade of F. Fortunately, gridlock over whether to use illusory budget surpluses for tax cuts or reserve the Social Security surplus for prefunding boomers' benefits stymied tax cutters for the time being, and only small, fully offset, tax cuts were enacted.

MEDIUM-TERM GRADE: D

Washington policy makers get a poor grade because of the damage they did in 1998 to the fiscal balance sheet for the next few years, and more significantly, because of the problems they have created for maintaining budget discipline in the future.

A prime example is the Transportation Equity Act for the 21st Century (TEA-21) which increased projected spending over the 1999-2003 period by nearly $21 billion. As a result, outlays for transportation programs covered by TEA-21 will grow from less than $27 billion in 1998 to about $36 billion in 2003. Although enactment of the highway and mass transit spending increases was accomplished technically within the letter of the budget process, the spirit of budget discipline was violated.

The 1993 deficit reduction legislation had increased the federal gasoline tax by 4.3 cents per gallon and dedicated the proceeds (about $4 billion annually) to deficit reduction. However, the 1997 Taxpayer Relief Act transferred the proceeds of the 4.3-cents-per-gallon tax to the highway and mass transit trust funds, and TEA-21 finished the job in 1998 by authorizing expenditure of the proceeds for transportation.

Budget rules required offsetting this additional expenditure. However, the principal offset, while technically satisfying budget enforcement rules, scarcely complied with the spirit behind the law. It eliminated a stream of future spending that had not yet begun to flow appreciably, and, adding insult to injury, overstated the size of this future spending flow. A $10.5 billion "reduction" over the 1999-2003 period was attributed to overturning recent controversial VA decisions entitling veterans to disability compensation benefits for health problems from nicotine dependence that began or worsened during military service. These new administratively created benefits had never been legislated. But rather than passing legislation to eliminate the new entitlement, policy makers instead diverted the new spending windfall to transportation.

Efforts to move the entire transportation program off budget failed, and highway and mass transit outlays remained subject to on-budget discretionary caps, but just barely. Two new separate "firewalls" were established for 1999-2002 to wall off highway and mass transit from the rest of discretionary funding. This was done in a way that permits transportation spending to increase along with higher gas tax revenues. So long as overall discretionary caps remain fixed, additional highway spending will have to come from other areas of the discretionary budget, regardless of competing needs or pressures. Finally, the calculations used to create the new highway/mass transit firewalls increased overall 1999-2002 discretionary outlays by several billion dollars.

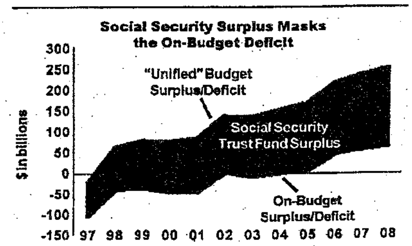
In addition to TEA-21, the Pay-As-You-Go scorecard indicates that other laws passed in 1998 will increase the budget deficit in 2002 and 2003 by a conservatively estimated $2 billion for each year.

LONG-TERM GRADE: C

For the long term, omission rather than commission was the problem. Fiscal policy in 1998 did nothing to improve the long term outlook for Social Security or Medicare, the two huge programs that will be most affected when baby boomers begin retiring in the next decade.

Medicare policy was put on "hold" for the year, pending the Medicare Commission report in 1999. True, the White House and many Congressional leaders orchestrated a year-long national dialogue on preserving Social Security as a warm up for serious legislative action in 1999. However, the current window of opportunity for making Social Security sustainable over the long term will not remain open indefinitely, and every year that passes without action heightens the chance that the U.S. will once again face mounting federal deficits.

The huge potential damage of using Social Security surpluses to finance tax cuts was averted in 1998—at least for the time being—but more than $20 billion of the Fiscal Year 1999 Social Security surpluses were borrowed, with the connivance of both ends of Pennsylvania Avenue, to finance routine short term expenditures.



OVERALL GRADE: D

Overall, the 1998 fiscal policy results merit a disappointing below-average mark. Policymakers appeared to be more intent on old fashioned political pork barrel spending, catering to those advocating large and still larger tax cuts, and avoiding tough spending decisions close to elections. Rhetoric about "saving the Social Security" surplus proved to be just that: rhetoric.

The most troubling overall trend was the assumption that budget surpluses now existed and were available for tax cuts or spending increases. The resulting breakdown in budget discipline, loss of resolve to eliminate deficits from the official budget, and avoidance of tough decisions required to make Social Security and Medicare sustainable for the long term signal that the hard-won reductions in the budget deficit thus far may begin to erode seriously in the coming year.

Federal Budget History/Projections

(Sources: OMB Historical Tables, CBO, and Concord analysis)

Fiscal Year	1970	1980	1985	1990	1995	1998	1999	2003	2008
			$ Billions						
ON-BUDGET TAXES									
Individual Income	90	244	335	467	590	829	850	968	1227
Corporate Income	33	65	61	94	157	189	196	210	262
Social Insurance	11	45	79	98	133	156	162	187	228
Excise	16	24	36	35	58	58	70	72	80
Estate, Gift, Customs, and Other	9	26	37	56	63	75	79	97	113
Total On-Budget Taxes	159	404	548	750	1001	1306	[illegible]	1534	1911
ON-BUDGET SPENDING									
Defense	82	135	253	300	274	270	272	306	337
Domestic	34	127	143	179	249	262	[illegible]	[illegible]	362
International	4	13	17	19	20	18	[illegible]	21	24
(Unspecified Reductions to Meet Caps)								[illegible]	-91
Subtotal Discretionary	120	275	414	498	543	549	[illegible]	[illegible]	[illegible]
Medicare	7	34	70	107	177	210	230	302	435
Medicaid	3	14	23	41	89	101	109	141	210
Fed. Employee Retirement/Disability	7	32	46	60	75	84	86	102	125
Low Income	7	32	43	59	102	108	119	[illegible]	171
Other Entitlement Programs	20	63	86	116	50	68	[illegible]	[illegible]	103
User Fees & Offsetting Receipts	-13	-31	-55	-68	-92	-100	-95	-117	-150
Subtotal Mandatory	31	144	212	315	401	471	522	662	895
Net Interest	16	55	134	200	265	290	289	275	257
Total On-Budget Spending	168	477	770	1028	1227	1335	1410	[illegible]	1846
On-Budget Surplus/(Deficit)	-9	-73	-222	-288	-226	-29	-51	[illegible]	64
OFF-BUDGET TAXES AND SPENDING									
Social Security Taxes	33	113	186	282	351	416	442	[illegible]	691
Social Security Spending	-31	-119	-188	-251	-336	-379	[illegible]	[illegible]	-602
Interest Payments from Treasury	2	2	4	16	33	47	51	[illegible]	117
Miscellaneous Payments from Budget	1	2	8	9	12	16	16	[illegible]	29
Postal Service				2	-2	0	[illegible]	[illegible]	[illegible]
Off-Budget Surplus/(Deficit)	6	-1	9	57	62	99	117	126	186
UNIFIED BUDGET Surplus/(Deficit)	-3	-74	-212	-221	-164	70	66	136	251
Total Federal Borrowing	15	80	253	339	277	109	[illegible]	81	[illegible]
Gross Federal Debt at End of Year	381	909	1818	3207	4921	5479	5608	6041	6242
Gross Domestic Product	1010	2719	4108	5683	7194	8401	8748	10357	12878
			% of Gross Domestic Product						
Total Taxes	19.1	19.0	17.9	18.2	18.8	20.5	20.6	[illegible]	19.8
Total Spending	19.4	21.7	23.0	22.1	21.1	19.7	19.8	[illegible]	17.9
Unified Budget Surplus/(Deficit)	-0.3	-2.7	-5.2	-3.9	-2.3	0.8	0.8	[illegible]	1.9
Gross Federal Debt	37.7	33.4	44.3	56.4	68.5	65.2	[illegible]	[illegible]	48.5

Details may not add to totals due to rounding.

Senator LAUTENBERG [presiding]. Ms. Phillips, does that about wrap up your testimony?

Ms. PHILLIPS. That is it.

Senator LAUTENBERG. Thank you very much.

Unfortunately, we are beset with matters all over this place, and both of our groups—Republicans and Democrats—are having meetings to which we are urgently called.

I thank each one of you for your testimony. We will take the liberty of reviewing it further and submitting any questions that we have in writing.

We are determined, and I think I speak for Chairman Domenici, as well as myself, when I say that we are determined not to live in the same fashion as we did last year or for the current year's budget: Without a budget resolution, with everything crammed into the last minute. Now, both Senator Domenici and I are members of the Appropriations Committee, and there is, as you might have guessed, some tension between the appropriators and the authorizers, and that has to be dealt with.

But I come out of the corporate world. I ran a fairly large corporation—a company that was in the computer business. As a matter of fact, we are, this year—I hate to give my age away; I had a birthday Saturday—but we are going to celebrate our 50th anniversary at a company called ADP, which I was one of the founders of. And so budgets and financial matters, accounting, and so forth are very much in my background and training.

The questions are so often raised about why not accrual accounting? Why are we on a cash basis? Well, it is easy to salute these things until you get into the result of that kind of a change, and then you have to scratch your head a little bit and say, "Well, wait. Wait a second."

When it comes to biennial budgeting, I do not know whether each of you were here when Senator Gorton said that the biggest change they made in the Washington State legislature, when he was serving there, was to go from biennial to annual budgeting.

There are not a lot of corporations, if any, that I can imagine that have 2-year budgets; that do not operate on an annual budget because, though the situation in the corporate world is different in so many ways, it is in some ways parallel, in that you have to respond to changing situations. The problem is that, once the cash drawer is open, everybody likes to take a few bucks out. In business, the controls are often more direct.

So we have a lot of things to think about, and your comments—all of them—have been very, very helpful. This subject is not new, but neither has the solution arrived yet. This will be a good year, I think, to deal with it in whatever fashion we are able to develop a consensus.

The PAYGO rules have, I think, been helpful to us. The emergency rules, I think, have to be tightened up. Chairman Domenici has a lot of experience with government budgeting, and his knowledge is that that few here have.

But we agree on lots of things. We agree on the need to work together. We do not always agree on what it takes to get that to happen. But we are determined, with the help of our very capable staffs here on both sides, to try to make a difference this year to get a more orderly process out of this, and your help counts.

So we thank you very much.

Unless Senator Voinovich has anything that he wants to say——

Senator VOINOVICH. I would thank you for being here today.

As I have listened to this testimony today, I could not help but think that, even if the Senate does pass this legislation, we are going to have a difficult time in the House of Representatives.

It seems to me that two areas need to be highlighted; one is how the present system has contributed to, I think, fiscal irresponsibility and, two, the issue that—and perhaps I differ with Senator Lautenberg in terms of the management of government agencies—our biennial budget in Ohio was almost $39 billion, and we recognized that, with that kind of large budget, that the 2-year biennial budget led us to better manage government.

And I think the thing that is appalling to me in this Federal Government is the lack of oversight. It seems that people just have not got time; directors of Federal agencies. And it would be wonderful if we could get some former Secretaries of departments to talk about the nightmare of this annual budgeting and how it interfered with them from doing the job that they were supposed to be doing, that the President and the country has asked them to do.

I think we need to get into that and, also, to talk about the fact that many of the committees here in Congress who should be spending a lot more time on oversight just have not got the time to do that job.

The last comment I would like to make is that I strongly believe we must convey to the American people the issue of this fraudulent surplus that we've been talking about now for the last couple of years.

It appalled me to see both the leadership of Congress and the President celebrate this surplus when, in fact, it was not a surplus. It was the money in the Social Security account that was covering up the fact that we still had on-budget deficit.

And I would be really interested to see if there is some language that we could—legislation that we could pass that would clarify this issue so that people are not under the impression that there is just a whole lot of money here in Washington. And I would really be interested—I know we have been in contact with the Concord Coalition to come up with that. You originally had some criticism of Congressman Livingston's idea, but we need help.

Ms. PHILLIPS. Well, what we pointed out to Congressman Livingston was that we entirely support changing the language used to describe the budget, but the Social Security surplus, by legislation signed into law by the President, has been removed from the Federal budget three times. It was done three times. Take no chances. Put a stake through its heart. Yet, people still talk as if it is part of the unified budget which, of course, it is and, for economic analysis purposes, sometimes it makes sense to look at that figure.

But for political purposes and for deficit control or surplus control purposes, it makes more sense to focus on the on-budget accounts. But it has already been taken out of the Congressional budget resolution. The only Social Security money in the budget resolution are the administrative funds. It is in a separate part of the budget of the United States, and we have done everything, I think, legislatively that we can do. And so it is really time to change the way we talk about it, and I think if the political rhetoric, the political symbolism, could be changed, that would go a long way towards changing people's perception and their behavior.

Senator VOINOVICH. Well, I would like to congratulate the Concord Coalition for helping to make that happen, and we thank you for being here today.

Senator LAUTENBERG. You are the shortest-serving Senator to achieve the chairmanship of a joint committee—— [Laughter.]

Thank you very much.

Senator VOINOVICH [presiding]. Well, I would just like to say thank you for being here today.

[Whereupon, at 11:23 a.m., the joint Committee hearing was adjourned.]

A P P E N D I X

RESPONSES OF SENATOR JOHN McCAIN TO QUESTIONS FROM SENATOR VOINOVICH

Question 1. As a freshman Senator, I did not have the opportunity to participate in consideration of the Fiscal Year 1999 Omnibus Appropriations bill last year. Would you please provide your thoughts on how this bill came to pass, as well as any outcomes—positive or negative—you would like to highlight?

Answer: This bill came to pass because as usual, we did not complete work on the annual appropriations bills on time. As a result, this monstrous bill passed because Congress was forced to either pass it, or face another government shutdown.

The negative outcomes of this bill are startling. This bill not only provided more than a half-trillion dollars to fund 10 Cabinet-level Federal departments for the fiscal year that had started 21 days earlier, but it also changed the law on a huge number of areas.

Further, the bill exceeded the budget ceiling by $20 billion for what is euphemistically called emergency spending, much of which is really everyday, garden-variety, special-interest, pork-barrel spending projects. Sadly, these projects were paid for by robbing billions from the budget surplus—a surplus that we say should be used to shore up Social Security, pay down the $5.6 trillion national debt, and provide much-needed tax relief to the American people. This was not just a bad appropriations bill, it was a legislative abomination. In short, the omnibus bill made a mockery of Congress' role in fiscal matters.

The Omnibus bill funded many well-deserving meritorious programs. I am not condemning the merit of these programs. I am condemning the process which we spent $5.5 trillion in such a short period of time. In regards to budget process, it is difficult to find positive outcomes resulting from the Omnibus bill, except that it drove home the point that it is time to change our flawed budget process.

This monstrous bill passed because Congress was forced to either pass it, or face another government shutdown. I and others introduced the Government Shutdown Act of 1999 again this year to put in place a mechanism to continue funding for any department or agency whose regular appropriations bill is not enacted by the beginning of the fiscal year. Our bill, S. 99, would make it more difficult for opportunistic politicians to put the American public at risk by threatening to shutdown essential government functions if Congress cannot agree on spending priorities and policies. Instead, because funding would be provided under an automatic continuing resolution to keep the government open, the Congress would be able to resist the pressure to throw everything into a last-minute spending bill just to get a deal and prevent a shutdown.

We cannot let the threat of another government shutdown force us to adopt another fiscal debacle like the FY 1999 Omnibus Appropriations bill. The Government Shutdown Act is an important first step toward repairing our flawed budget process, and preventing another fiscal nightmare like the Omnibus bill.

Question 2. You spoke at length regarding the effect annual budgeting has on spending. I would be interested in your thoughts as well on how biennial budgeting could improve Congressional oversight of government programs and, ultimately, management practices at the Federal level.

Answer. Biennial Budgeting will require the President to submit and Congress to enact 2-year authorization and appropriations bills. In contrast, annual budgeting encourages budgeting by brinkmanship, where we scramble at the end of each fiscal year to complete a new budget and avoid a government shutdown.

Biennial budgeting would allow us to focus attention on fiscal matters during the first full year of a Congress, then turn to other pressing matters of national policy the second year. We spend the majority of our time every year deciding how we are going to fund the government in the annual appropriations bills. This is a tremendous waste of resources. There is an endless list of policies and issues we should be dealing with, such as education, homelessness, military readiness, foreign policy, and so forth. But these issues are given short shrift because our time is consumed with the budget process.

In short, biennial budgeting will improve Congressional oversight by providing more time for Congress to address long-term planning, and greater oversight of government programs.

RESPONSES OF MARTHA PHILLIPS TO QUESTIONS FROM SENATOR VOINOVICH

Question: I understand that on three occasions Congress has prohibited in law the practice of counting Social Security Trust Fund surpluses when calculating the government's overall economic picture. I further recognize that many elected officials find political utility in continuing to portray our Federal budget as if in surplus, even though the surplus is only attributable to the Social Security Trust Fund. I applaud the Concord Coalition for your willingness to educate the public and Members of Congress on this issue. Martha, can the Concord Coalition offer ideas to prohibit, once and for all, this deceptive accounting practice?

Response: Members of the Concord Coalition share your frustration at the continuing use of unified budget totals rather than on-budget totals by government officials and members of the news media. In the past, this practice has made budget deficits look smaller. Last year and this year, this practice makes budget deficits appear to be surpluses. Before long, it will make budget surpluses seem larger.

But whether the deception deals with red ink or black, the problem is the same. Incorporating the large off-budget Social Security surpluses into the overview picture of how we are doing gives everyone—political leaders, the press, and the public—a misleadingly benign picture of our fiscal balance sheet. The more surplus dollars policy makers and those who elected them think there are, the greater the pressure will be to use up every penny.

Because enacting laws to put Social Security off-budget and take it out of the Congressional Budget Resolution have not stopped the practice of talking, thinking and reporting in terms of unified balances, Concord believes that rather than another legal change, a behavioral change would be more effective. Congress could lead the way. The budget resolution adopted this year, committee and floor debate, press releases and public speeches should all be expressed in terms of on-budget totals. When House and Senate leadership, members and staff begin using only on-budget totals, the press would pick up on this quickly, and in turn, would help change public perception. Changing the terms of the debate would change the options raised for consideration.

Many people have discovered that the only way they can save—for retirement, their children's education, or buying a house—is to have money automatically deducted from their paychecks and put into a savings account. They then tell themselves that only the money that shows up in their checking account is available for spending and they budget accordingly. Their "off budget" savings is not part of their day-to-day thought process. Without enacting legal changes, Congress could do the same thing through its practices and procedures; by focusing on the on-budget accounts, and taking the off-budget Social Security program out of their collective decision making process.

RESPONSES OF CONGRESSMAN NUSSLE TO QUESTIONS FROM SENATOR VOINOVICH

CONGRESS OF THE UNITED STATES,
HOUSE OF REPRESENTATIVES
March 19, 1999,

The Honorable George Voinovich,
Committee on Governmental Affairs,
340 Senate Dirksen Office Building,
Washington, DC.

Dear SENATOR VOINOVICH: Thank you for writing to further inquire about my thoughts on budget process reform. I appreciated the opportunity to testify before your Committee recently, and I am pleased to answer your additional questions.

Opposition to Biennial Budgeting

You inquired about opposition to biennial budgeting in the House of Representatives, and how S. 92 and S. 93 could be made more acceptable to the House. One possible option to gain support among House members would be to develop a mechanism that allows either House to trigger the consideration of an annual budget resolution. The House might be more inclined to agree to a process that allows biennial budgeting if they knew that they would have the discretion to insist on an annual resolution. Ultimately, the default should be annual resolution.

A second option would be to authorize biennial budgeting on a trial basis—perhaps two Congresses. Another possibility would be to require a super majority to consider unauthorized bills to show that the Senate is serious about using the authorizing process to increase oversight in the odd years.

Differences between House and Senate Versions

The House bill puts more emphasis on *accountability* and the Senate bill on *efficiency.* House provisions on joint resolution, lock-box, subjecting new entitlements to annual appropriations, and sunsetting are designed to increase policy makers' scrutiny of, and hence accountability for, Federal spending. In contrast, some might be concerned that the Senate's proposed restrictions on floor amendments and requirement that the Congress budget on a biennial basis may reduce accountability in the name of greater efficiency.

Balance of Power

You inquired about my thoughts on how biennial budgeting would affect the balance of power between the Executive and Legislative Branches, as well as the balance of power between the House and the Senate. First, in view of our ability to anticipate funding needs 12 months out—let alone 24 months—the Congress would be forced to provide broader discretion to the President. Secondly, biennial budgeting would give the Senate the upper hand in budgetary negotiations because House members tend to serve for a shorter period (i.e., competitive districts, self-imposed term limits).

Omnibus Appropriations Act

You asked for my thoughts on the Fiscal Year 1999 Omnibus Appropriations Act, and how it came to pass. As I mentioned during my testimony, I believe last year is the "poster child" for budget process reform. The budgeting breakdown can be summarized in five points.

1. Budgetary discipline was generally undercut by the arrival of surpluses 5 years earlier than expected.
2. The existence of an automatic adjustment in the caps for emergencies fueled a bidding war between the House, Senate and Administration. This gave cover to all sides to exceed the caps that were established only 19 months earlier.
3. Both sides took advantage of the absence of a definition of emergency and limitation on emergency spending by designating spending for situations that were clearly anticipated and posed no threat to life, property, and national security.
4. The Administration, knowing that any government shutdown would be blamed on Republicans, were able to force the Congress to breach the caps as the price of "getting out of town."
5. Finally, the absence of any vehicle for agreeing on budgetary totals delayed conflict on the budget to the Omnibus Appropriations bill. In view of the unresolved differences between the Congress and the President on the budget, the President and the Congressional Leadership took the path of least resistance and increased spending on everything.

Conclusion

It is my hope that these answers clarify some of the points I touched on during my testimony before you Committee. I look forward to working with you and your Senate colleagues on the important issue of budget process reform.

JIM NUSSLE
Member of Congress

RESPONSES OF CONGRESSMAN CARDIN TO QUESTIONS FROM SENATOR VOINOVICH

Question 1. As a freshman Senator, I did not have the opportunity to participate in consideration of the Fiscal Year 1999 Omnibus Appropriations bill last year. Would you please provide your thoughts on how this bill came to pass, as well as any outcomes—positive or negative—you would like to highlight?

Answer: The 1999 budget and appropriations process was marked by a complete breakdown in the legislative process. For the first time since the current Congressional budget procedures were adopted 25 years ago, Congress completely failed to approve a budget resolution. The lack of a fiscal blueprint for the year, coupled with a failure to achieve an early agreement between the Congressional leadership and the administration, resulted in the need to adopt a massive catch-all spending bill.

At the end of the year the process was driven by a general sense of the importance of avoiding another government shut-down, as we had in 1995. The legislative work product lacked the scrutiny that is imposed on the regular appropriations bills when they are considered in the normal course of legislative business. With less accountability and review, the final bill only added to the frustration and dissatisfaction the American people feel with the Federal budget process.

Question 2. You spoke at length regarding the effect annual budgeting has on spending. I would be interested in your thoughts as well on how biennial budgeting could improve Congressional oversight of government programs and, ultimately, management practices at the Federal level.

Answer. We have not included a proposal for biennial budgeting in the legislation we introduced in the House. The proponents of biennial budgeting argue that by designating extended blocks of time for Congressional oversight of Executive Branch agencies, improvements in management efficiencies could be achieved. On the other hand, recent experience with the need for supplemental spending bills and changes in economic conditions suggest the value of an annual appropriations cycle. In either case, I believe we should seek to bring consultation between the executive and legislative decision-makers earlier in the process, and devise systems for reducing the threat of brinksmanship in the budget and appropriations processes.

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